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A SPECIAL REPORT

# INTERNATIONAL Herald Tribune

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No. 36,010

## Articles of Impeachment Readied in House

Clinton Lawyer Hammers At Charge of 'High Crime'

By Brian Knowlton  
*International Herald Tribune*

WASHINGTON — Republicans on the House Judiciary Committee put the finishing touches on draft articles of impeachment against Bill Clinton on Wednesday even as his counsel concluded his defense with the argument that the president's behavior, although "morally reprehensible," did not merit impeachment.

"The president knows that what he did was wrong, he has admitted it, he has suffered privately and publicly," said the White House counsel, Charles Ruff. "He is prepared to accept the obliquity that flows from his private conduct."

But he added, "the president has not committed a high crime or misdemeanor. His conduct, although

morally reprehensible, does not warrant overturning the mandate of the American electorate."

It appeared, however, that he and Mr. Clinton's other lawyers, in two days of arguments and in testimony from three panels of sympathetic witnesses they had called, had made no dent in the pro-impeachment sentiments of the panel's Republican majority.

Even as Mr. Ruff spoke, committee staff members were putting final touches on possible articles of impeachment — what the committee chairman, Representative Henry Hyde, Republican of Illinois, said would be "a working draft we can stand behind."

The divided committee, where Republicans dominate, is considered certain to vote Friday or Saturday to send at least one of those articles to the full House.

They deal with allegations of perjury, obstruction of justice and abuse of presidential authority as part of an attempt to cover up the sexual relationship Mr. Clinton had with Monica Lewinsky, a former White House intern.

As the administration braced for a historic vote there, Mr. Hyde joined in the intense struggle for the support of a key group of moderate House Republicans who are likely to determine the outcome of the vote.

Mr. Hyde said that he would not lobby colleagues in the House to support impeachment. But he wrote

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Chairman Hyde of the Judiciary Committee, left, whispering to another congressman, Barney Frank, Democrat of Massachusetts, as Clinton defenders ended their testimony Wednesday.

## Now the Vote-Counting Begins

Moderate Republicans Are Target of the President's Men

By John F. Harris  
*Washington Post Service*

WASHINGTON — Now that the White House has wrapped up two long days of presenting the case against impeachment, President Bill Clinton's defense team will begin an urgent exercise in vote-counting to gauge whether the president himself needs to plunge into a lobbying campaign aimed at the small corps of moderate Republicans on whom next week's historic House floor vote will hinge.

The strategy, as various Clinton advisers described it, is based on the following logic: If there are signs that the parade of witnesses carrying Mr. Clinton's defense before the House Judiciary Committee on Tuesday and Wednesday is causing Republican swing voters to shy from impeachment, the wisest course for the president would be to simply

rest his case. But if it looks as if the defense effort has failed to move enough votes, some advisers said they are urging a far more aggressive approach in the final days before a full House vote.

This could include public statements by Mr. Clinton amplifying his previous expressions of personal regret and forthright signals to wavering members that he would be willing to accept a significant financial penalty as part of an official reprimand that stopped short of impeachment.

Leon Panetta, Mr. Clinton's former chief of staff and an informal adviser in the effort to stave off impeachment, said that it was time for the president and his team to recognize that "you've got legislative trench warfare going on." This reality, he said, means that Mr. Clinton should be aggressively

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## AGENDA

Wall Street's Woes  
Widen Trade Gap

The U.S. trade deficit grew to a record \$61.3 billion in the third quarter, the Commerce Department said. Wednesday. Sales of U.S. stocks and bonds by foreign investors apparently worried by the decline in U.S. markets from July through September accounted for much of the gap. Page 13.

Japanese Scientists  
Clone Calves Easily

Scientists in Japan reported that they had cloned eight calves from cells they gathered from a slaughtered animal. Some biologists say the results indicate that the cloning of cows may be at least as efficient as in-vitro fertilization. Cows are the third animal to be cloned. Page 2.

The Dollar

New York Wednesday 9:45 AM Previous close

Dow 1,0924 +1,6697

S&P 500 777.82 +19.03%

Small stocks 5,5975 +5,5998

Bonds 1,6532 +1,8558

Dollars per pound

The Dow

Wednesday close percent change

18.78 9,008.19 -0.21%

S&P 500

+2.11 1,183.49 +0.18%

Nasdaq

5,57 2,050.42 +0.77%

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Finland 12.80 FM Qatar 10,000 QR

Gibraltar 2.045 Rep. Ireland IR E1.70

Great Britain UK £1.00 Saudi Arabia 10 SR

Iceland SE 5.50 S. Africa R16 incl VAT

Japan 1,250 JYD U.A.E. 10,000 DN

Kenya K Sh 150 U.S. M\$ (Ecu) \$1.20

Kuwait 700 Fils Zimbabwe Zim \$40.00

## Blair and Schroeder Agree on Taxes

By Tom Burkle  
*International Herald Tribune*

LONDON — A week after the British and German finance ministers clashed openly over the need for tax harmonization in Europe, Prime Minister Tony Blair and Chancellor Gerhard Schroeder announced Wednesday that Europe should restrict its efforts to fighting "unfair" tax competition and not seek to unify corporate or personal income tax rates.

The dispute on tax harmonization provoked a howl of controversy from opposition politicians and much of the British press, which said that Germany

and France were intent on using the euro to force their higher tax rates on Britain and other low-tax countries in the European Union.

The joint statement Wednesday, which was agreed to in phone exchanges between the two leaders this week, provided some welcome political cover for Mr. Blair ahead of the semi-annual meeting of EU leaders, in Vienna on Friday and Saturday.

It also reflected a new attempt by Mr. Blair's government to strengthen its hand in European policy-making by building closer bilateral relationships with Continental governments.

"We do not favor a unified European

system of corporate taxation," the statement said. "We agree that further consideration could be given to how harmful tax competition in the area of corporate taxation might best be avoided. But we will not support measures leading to a higher tax burden and jeopardizing competitiveness and jobs in the EU."

Mr. Blair and Mr. Schroeder said their governments were committed to fighting unfair tax competition, including a range of special tax regimes and regional tax breaks that a special EU committee has identified as potential

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## Netanyahu: He's in the Same Predicament as Israel

By Lee Hockstader  
*Washington Post Service*

JERUSALEM — "Scoundrel!" shouted the Israeli lawmaker Yossi Sarid, aiming the barb at Benjamin Netanyahu as the prime minister addressed Parliament this week. "There is not a man in this house who has not lied astray."

The tone was rhetorical, but the sentiment was general. Mr. Netanyahu, who has survived in office for two and a half years by ducking and dodging on the question of peace with the Palestinians, is now boxed into the tightest political corner of his term.

Under attack from hawks for signing the U.S.-brokered peace deal with the Palestinians this autumn and from doves for suspending its implementation, the Israeli leader faces the threat of new elections he could well lose. The alternative is for him to make concessions to hard-liners that could mean the end of the peace process, a course that would infuriate the Clinton administration.

There appears no strategy left to Mr. Netanyahu that would at once satisfy his domestic allies, keep him in office and advance the peace process.

In a stormy session Monday in the Knesset, or Parliament, Mr. Netanyahu won a reprieve — for two weeks or less. But the votes remain arrayed against him.

"Netanyahu discovered that one can't stand in the air and on the ground at the same time," wrote Sima Kadmon, a commentator in the daily newspaper Yedioth Ahronot. "His tricks were seen for what they are one time too many."

That is Mr. Netanyahu's predicament on the eve of President Bill Clinton's three-day visit to the Holy Land, scheduled to begin late Saturday.

It is also the country's. With Israeli politics in turmoil, peacemaking with the Palestinians is on hold despite the broad public support for the peace



Palestinians fleeing Israeli troops during riots Wednesday on the outskirts of Ramallah, West Bank. Page 8

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**Punishment's Capital / Flurry of Executions in Texas****At Death House's Revolving Door**By Paul Duggan  
Washington Post Service

**H**UNTSVILLE, Texas — In a light rain, the hearse pulled up to the oldest penitentiary in Texas, the red-brick Huntsville Unit. A guard waved at through the back gate, as usual, and the driver parked near the bunker-like death house of the prison. As civilian witnesses waited to be escorted along an outdoor walkway to the death house, a tarpaulin covered the fence to ensure they would not see the hearse as they walked by.

"We have it down to a science," said Larry Todd, a prison spokesman.

From 1992, when the execution pace here began to accelerate, more than 120 inmates have died of lethal injection in Huntsville. Texas has carried out the most executions by far since the Supreme Court approved restoration of the death penalty in 1976. Yet even by Texas standards, what is happening here this week is extraordinary.

Monday night, the hearse arrived for Daniel Lee Corwin, 40, a confessed serial killer. Tuesday night, it carried away Jeff Emery, 39, convicted of sexually assaulting and fatally stabbing a college student during a burglary. Wednesday, it was set to come for Danny Lee Barber, 43, also found guilty of murdering a burglary victim. And Thursday, it will arrive for Joseph Stanley Faulder, 61, a Canadian who was convicted of killing an elderly woman and who Canadian authorities say should be spared because he was not granted consular rights when he was arrested by Texas police.

[On Wednesday, Texas parole officials denied Mr. Faulder's petition for a 90-day reprieve and for commutation of his death sentence to a lesser penalty, The Associated Press reported.]

Next Tuesday, the hearse is due again at the Huntsville death house, site of every Texas execution since 1924, when the state took control of executions from local sheriffs. After a break for the holidays, the hearse is set to return four more times in the first two weeks of January, including three nights in row, Jan. 11 to 13.

Although Texas leads the count, it is not alone. Since a Utah firing squad killed Gary Gilmore in January 1977, ending a 10-year nationwide hiatus on the death penalty, 439 people, through Mr. Emery, have been put to death in the United States. Mr. Emery was the 163rd inmate to be executed in Texas since 1982, when the state carried out its first execution under a new death penalty statute approved by the Supreme Court in 1976.

Supporters and opponents of capital punishment can only theorize why Texas carries out death sentences with so little hesitation. Some say that the state's capital punishment laws are particularly straightforward and that Texas has remained insulated from appeals against other states' laws. They also say the state's courts and lawyers generally have been supportive of capital punishment, more so than lawyers and judges elsewhere. Governor George Bush, among many Texas politicians, also backs the death penalty "as part of an effective criminal justice policy," a spokeswoman said.

Across the nation, 22 years after the Supreme Court reopened death house doors, opponents continue sounding a refrain: The death penalty is morally wrong, unconstitutionally cruel and impossible to apply fairly; that blacks account for 13 percent of the country's population but more than 40 percent of its condemned inmates, and that a murderer, regardless of race, is much more likely to be sentenced to death for killing a white victim than a nonwhite victim.

Death penalty supporters, as they have for decades, reply that putting murderers to death is morally justifiable and constitutionally sound; that blacks are proportionately represented on death rows because they commit about half the country's homicides; and that for every study citing disparities in capital murder cases involving white and nonwhite victims there is a study concluding that no such inequities exist.

On and on goes the debate, one side arguing that death sentences deter crime, the other asserting they do not.

The public says it approves of the ultimate punishment. Polls in recent years have consistently found 70 to 80 percent of Americans in favor of capital punishment. The same polls also have shown a majority of black people supporting capital punishment.

Monday night, when Mr. Corwin's time came, Mr. Todd said, every official taking part in the process — the warden, the chaplain, the five-member "tie-down" team assigned to strap Mr. Corwin to the execution gurney, the two guards on the "IV team" whose job was to insert the needles and start the chemicals flowing — all had been through it before.

"I'd never call it routine, when you're taking someone's life," Mr. Todd said. "But they're all professionals. They know what they're doing, step by step."

Mr. Corwin, a carpenter born in Orange County, California, was one of 446 men on death row at the Ellis Unit prison near Huntsville, until early Monday afternoon, when he was transported to the nearby death house. Only California, with 513 condemned prisoners as of Oct. 1, has a bigger death row than Texas, which runs a separate death row in another prison for seven condemned women.

In Huntsville, Mr. Corwin was led to a holding cell in the death house. Through the bars he could watch the afternoon tick away on a clock a few feet away. He was fingerprinted, "to ensure we have the proper inmate," Mr. Todd said.

About 4 P.M., Mr. Corwin had a final meal of steak, potatoes and peas, with cake for dessert. Two guards and a chaplain stayed with him through the afternoon, as other prison officials came and went.

Mr. Corwin was white, like 37 percent of Texas' death row inmates. Blacks make up 42 percent, Hispanics 20 percent. Nationally, whites account for 47 percent of the 3,517 death row inmates, according to the Washington-based Death Penalty Information Center, an anti-capital punishment group. Blacks make up 42 percent, Hispanics 8 percent.

In outlawing capital punishment in 1972, the Supreme Court found that death sentences were being meted out haphazardly, with little or no guidelines for what constituted capital murder. Minorities were receiving a grossly disproportionate share of those sentences. That was nowhere truer than in Texas, according to the authors of "The Rope, the Chair and the Needle," a statistical analysis of capital punishment here, published in 1994.

**F**ROM 1924, when Texas started using the electric chair, until 1964, when it pulled the plug, the state executed 361 inmates, 63 percent of whom were black.

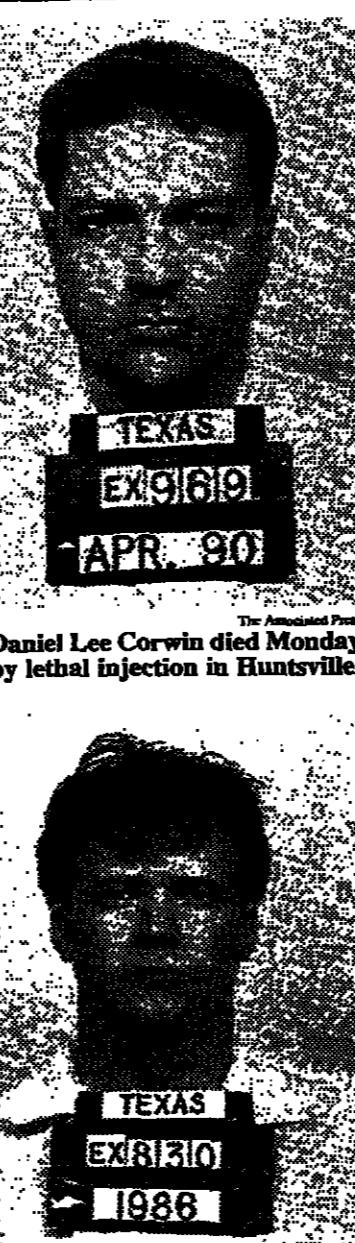
Texas was among a number of states to pass new death penalty statutes within a few years of the Furman ruling, specifying circumstances under which death sentences can be imposed and detailing what jurors should consider in making up their minds. The high court upheld the Texas law in 1976, along with new laws in Georgia and Florida.

On Monday, Mr. Corwin walked to the death chamber with the warden, the chaplain and the tie-down team at 6:04 P.M. A minute later he was strapped in place.

A pair of intravenous tubes from a separate room were run through an opening in the wall, the needles inserted in his right arm and left hand. The witnesses were summoned, led past the hidden hearse to the death house. They filed into two observation rooms. In one were two friends of the condemned man, in the other, relatives of three women he killed. The blinds were pulled open so the witnesses could see.

"I regret what happened and I want you to know I'm sorry," Mr. Corwin said into a microphone dangling over his head, before the chemicals flowed. "I just ask and hope that sometime down the line that you can forgive me. I think in a lot of ways that without that, it becomes very empty and hollow, and the only thing we have is hatred and anger."

At 6:33 P.M., he was pronounced dead, and wheeled out to the hearse.



On Tuesday, the hearse came to the death house for Jeff Emery.



The execution of Joseph Stanley Faulder is set for Thursday.

**8 Cows Cloned in Japan From Scrapped Entrails****Breakthrough Event Follows Lamb and Mice**By Gina Kolata  
New York Times Service

survived and appear perfectly normal, the scientists say.

**British Seek Human Cloning**

A scientific panel has recommended that Britain permit research into the cloning of human embryos, possibly leading to a genetic spare parts industry for damaged human bodies. The Washington Post reported from London.

The advisory panel said that stem cells, primitive cells taken from early-stage human embryos that develop into any kind of cell in the body, might lead to such products as new skin cells for burn victims, new brain cells for people with Alzheimer's or Parkinson's disease or new cells to replace the bone marrow of cancer patients undergoing chemotherapy.

Cows are the third adult animal to be cloned. The first was a lamb named Dolly whose birth was announced in February 1997. She had been cloned from an adult cell. Then came mice, announced last July.

Cloning, which just two years ago had been thought biologically impossible, is suddenly looking as if it might be entirely feasible, if not easy, according to cloning experts.

It still seems surprising to some scientists.

After all, an adult cell, like an udder cell, has reached its final destiny in the body and under normal circumstances never changes into something else. But with cloning, an adult cell would have to reverse its development somehow and become an early embryo cell, able to direct the development of an entirely new animal that was the identical twin of the adult that provided the original cell.

But now, "cloning is becoming routine," said R. Michael Roberts, a professor of animal physiology at the University of Missouri and the chief scientist for the Department of Agriculture's competitive grants program in Washington.

A paper by the Japanese scientists, led by Yukio Tsunoda of Kinki University in Nara, describing their cloning of a cow, will be published Friday in the journal Science.

Mr. Tsunoda and the others say that one reason to clone cattle would be to reproduce exact copies of animals that are superb producers of meat or milk.

In fact, said Mr. Roberts, on a recent visit to Japan he saw a calf that other researchers asserted they had cloned from cells taken from the ear of a prize bull. The scientists who created that clone have not yet published their results, he added.

Mr. Roberts said that several Japanese groups say they are successfully cloning adult cows and bulls, although Mr. Tsunoda's group is the first to publish results.

Randall Prather, a cloning researcher at the University of Missouri, said that he and others had been predicting that more than 50 calves that are clones of adults will be born in Japan by the end of the year.

But what surprised many cloning experts was not just the fact that a cow was cloned but the ease with which Mr. Tsunoda's group accomplished its task.

"If this is true, it's startling," said Barry Zirkin, a reproductive biologist at Johns Hopkins University School of Hygiene and Public Health.

To begin the cloning process, the Japanese scientists gathered two types of cells from a Japanese beef cow whose entrails had been discarded in a slaughterhouse: cumulus cells, which cling to egg and nurse them, and cells from the lining of the cow's Fallopian tube.

Then they used these cells to create embryos, slipping either a cumulus or Fallopian tube cell into another cow's egg from which the genetic material had been removed.

The researchers attempted to add cumulus cells to 99 cow's eggs, of which 47 took up the cumulus cells.

Eighteen of the resulting embryos survived in the laboratory for eight to nine days until they were ready to be transferred to surrogate mothers.

With the Fallopian tube cells, the researchers used 150 eggs, got 94 of them to take up cells and ended up with 28 embryos.

Mr. Tsunoda's group transferred 10 of the 46 embryos to cows that could serve as surrogate mothers.

Eight calves were born. Four of them died at or soon after birth; the others

survived and appear perfectly normal, the scientists say.

**45 Butchered In Attack on Algeria Town**

The Associated Press

ALGIERS — An armed band massacred 45 people in an overnight attack on a mountain town west of Algiers, security forces announced Wednesday.

"It was the bloodiest attack in recent months, and the latest in a new wave of violence."

In a separate development, security forces digging up a well that was used as a mass grave said Wednesday that they had recovered 45 bodies. Work to clear the 55-meter (180-foot) well is far from over, they said.

Officials said that two days ago a bomb was found in the well and that they fear some bones could be booby-trapped.

Security forces are therefore working "centimeter by centimeter" to reach the bottom of the well, which no longer contains water.

Specialists date the mass grave to 1996 or 1997.

The security forces provided no details about the predawn massacre in Tadjidja, near Chlef, about 200 kilometers (125 miles) west of the capital.

The statement said only that the massacre had been committed by a "terrorist band," language signifying Muslim insurgents. They have been blamed for many similar massacres in recent years.

The latest massacre raised the death toll since the start of the month to at least 115.

More than 75,000 have died in seven years of violence in this North African nation. The insurgency erupted after the government canceled elections that the Islamic Salvation Front, which is banned, was expected to win.

**Pentagon Says U.S. Firm Aided China on Missiles**By Jeff Gerth  
New York Times Service

WASHINGTON — A Pentagon report says that Hughes Space & Communications, without proper authorization, gave China technological insights that are crucial to the successful launching of satellites and ballistic missiles.

An unclassified version of the Pentagon report, consisting of 11 pages and a two-page appendix, was made available by a government official who favors tighter controls on satellite technology.

Hughes, which has denied any wrongdoing in the case, said the company's actions had been approved by the Commerce Department, which a Hughes representative said was the "appropriate licensing authority."

According to the report, completed Monday, Hughes' scientists helped Chinese engineers in 1995 to improve the sophisticated mathematical models necessary to predict the effects of wind, high-atmosphere buffeting and other natural forces on a rocket launching.

These formulas are important in designing nuclear missiles and in launching satellites that do not explode or break apart. They help technicians calculate the appropriate angle of launch, the shape of the nose cone of the rocket, the tolerable limits of weather and other factors.

The Chinese program, the Pentagon said, had been using an "oversimplified" mathematical analysis, resulting in a series of failed satellite launches. Hughes pointed out that shortcoming to Beijing in 1995, when its scientists helped investigate the failed launching of a Hughes commercial communications satellite atop a Chinese rocket.

The report concluded that Hughes had provided a "defense service" to China that violated American standards against helping Beijing make better satellites and missiles. It said Hughes should have sought State Department authority for its actions.

The company's assistance to China "raises national-security concerns both with regard to violating those standards

and to potentially contributing to China's missile capabilities," the report said.

The Justice Department has been examining whether Hughes and Loral Space & Communications Ltd. violated export laws when they helped Chinese rocket scientists understand the causes of another launch failure in 1996. That investigation has now been expanded to include whether Hughes violated export control laws in 1995. Hughes is a subsidiary of Hughes Electronics, which is owned by General Motors Corp.

The Pentagon report is the first indication that Hughes gave China valuable information involving the failed launching of 1995 and provides the most detailed account to date of what the Chinese might have gained.

Despite its limitations, the Pentagon report is likely to provide fresh ammunition to critics of President Bill Clinton's decision in 1996 to loosen controls over satellite exports to China, a decision for which Hughes officials had campaigned heavily but which Congress reversed this autumn.

**TRAVEL UPDATE****French Rail Strike Sticks**

PARIS (AP) — French ticket inspectors voted Wednesday to continue a strike Thursday for more staff and more pay in many parts of the country, although improvements were expected after strikers in Marseille voted to resume work, management said.

Conductors in 11 of 23 regions voted to continue the strike, management of the state railway company SNCF said.

Services were expected to be normal on high-speed TGV links between France and northern Europe, Switzerland and Italy and on national high-speed routes.

But disruption was expected on conven-

tional main-line routes in the affected regions Thursday, with only one to two of every three scheduled trains running, management said.

PARIS (AP) — Striking employees barred visitors Wednesday from entering two of the French capital's best-known art museums — the Louvre and the Grand Palais.

The workers are demanding more personnel and improved working conditions.

The strike was the latest in a wave of walkouts that have closed major Paris attractions recently, including the Eiffel Tower and the National Library.

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**WEATHER**

Forecast for Friday through Sunday, as provided by AccuWeather.

		Europe		Asia	
Today	High Low W	Tomorrow	High Low W	Friday	Saturday
Paris	62°/52°	62°/52°	62°/52°	62°/52°	62°/52°
London	58°/48°	58°/48°	58°/48°	58°/48°	58°/48°
Paris	62°/52°	62°/52°	62°/52°	62°/52°	62°/52°



**Hearing at the Capitol / The President's Side****Clinton Defenders Testify for a 2d Day Against Impeachment**

International Herald Tribune

This is a partial text of statements by witnesses for President Bill Clinton on Wednesday before the House Judiciary Committee:

**Representative Henry Hyde, Republican of Illinois and chairman of the committee:**

We have a distinguished panel today, as we have had all week. Thomas Sullivan is a senior partner at Jenner & Block and has practiced with that firm for the past 44 years. He's a former United States attorney for the northern district of Illinois. Mr. Sullivan specializes in civil and criminal trial and appellate litigation.

Richard Davis is a partner with the New York law firm of Weil, Gotshal & Manges. He also served as an assistant U.S. attorney in the southern district of New York from 1970 through 1973 and was task force leader for the Watergate special prosecution force, 1973-1975. From 1977 to 1981, he served as assistant secretary of the Treasury for enforcement and operations.

Edward Dennis Jr. is a partner in the litigation section of the Philadelphia law firm of Morgan, Lewis & Bockius. He joined the firm after 15 years with the Department of Justice, during which he held the following positions: acting deputy attorney general, assistant attorney general for the criminal division and U.S. attorney for the eastern district of Pennsylvania.

William Weld is a former two-term governor of Massachusetts and began his legal career as a counsel with the House Judiciary Committee during the Watergate impeachment inquiry. He then served as U.S. attorney and as head of the criminal division at main Justice under President Reagan before being elected governor of Massachusetts in 1990.

Ronald Noble is associate professor of law at NYU Law School. He served as undersecretary of the Treasury for enforcement, 1994-1996; as deputy assistant attorney general and chief of staff in the criminal division of the Department of Justice, 1988-1990, and as assistant United States attorney in the eastern district of Pennsylvania, 1984-1988.

Thomas Sullivan

I appear today not as an advocate or partisan for President Clinton or the Democratic Party, but rather as a lawyer of rather long experience who may be able to assist you in your deliberations on the serious and weighty matters you now have before you.

Both perjury and obstruction of justice are what are known as specific intent crimes, putting a heavy burden on the prosecutor to establish the defendant's state of mind. Furthermore, because perjury and obstruction charges often arise from private dealings with few observers, the courts have required either two witnesses who testified directly to the facts establishing the crime, or, if only one witness testifies to the facts constituting the alleged perjury, that there be substantial corroborating proof to establish guilt. Responsible prosecutors do not bring these charges lightly.

There is another cautionary note, and this, I think, is very significant here. Federal prosecutors do not use the criminal process in connection with civil litigation involving private parties. The reasons are obvious. If the federal prosecutors got involved in charges and countercharges of perjury and obstruction of justice in discovery or trial of civil cases, there would be little time left for the kinds of important matters that are the major targets of the Department of Justice criminal guidelines.

Further, there are well-established remedies available to civil litigants who believe perjury or obstruction has occurred. Therefore, it is rare that the federal criminal process is used with respect to allegations of perjury or obstruction in civil matters.

The ultimate issue for a prosecutor deciding whether or not to seek an indictment is whether he or she is convinced that the evidence is sufficient to obtain a conviction; that is, whether there is proof beyond a reasonable doubt that the defendant committed the crime. This is far more than a probable-cause standard, which is the test by which grand jury indictments are judged. Responsible prosecutors do not submit cases to a grand jury for indictment based upon probable cause. They do not run cases up the flagpole to see how the jury will react. They do not use inducements for deterrence or as a punishment.

Responsible prosecutors attempt to determine whether the proof is sufficient to establish guilt beyond a reasonable doubt. If the answer is yes and there are no reasons to exercise discretion in favor of leniency, the case is submitted to the grand jury for indictment, which — I come from — and everywhere else I know about — is routine and automatic. If the answer is no — that is, even if the evidence establishes probable cause, but, in the prosecutor's judgment, will not result in a conviction — the responsible prosecutor will decline the case.

It is my opinion that the case set out in the Starr report would not be prosecuted as a criminal case by a responsible federal prosecutor.

Before addressing the specific facts of the several of the charges, let me say that in conversations with many current and former federal prosecutors, in whose judgment I have great faith, virtually all concur that if the president were not involved, if an ordinary citizen were the subject of the inquiry, no serious consideration would be given to a criminal prosecution arising from alleged misconduct in discovery in the Jones case having to do with an alleged cover-up of a private sexual affair with another woman, or the follow-on testimony before the grand jury. This case would simply not be given serious consideration for prosecution. It wouldn't get in the door. It would be declined out of hand.

Richard Davis

In making a prosecution decision, as recognized by Justice



Richard Davis, attorney with Weil, Gotshal and Manges, New York.



Edward Dennis Jr., attorney and partner in a Philadelphia firm.



Ronald Noble, a professor at New York University's Law School.



William Weld, an attorney and a former governor of Massachusetts.



Ronald Noble, a professor at New York University's Law School.

Department policy, the initial question for any prosecutor is, "Can the case be won at trial?" Simply stated, no prosecutor should bring a case if he or she does not believe that, based upon the facts in the law, it is more likely than not that they will prevail at trial. Cases that are likely to be lost cannot be brought simply to make a point, or to express a sense of moral outrage, however justified such a sense of outrage might be. You have to truly believe you will win the case.

I would respectfully suggest that the same principle should guide the House of Representatives as it determines to, in effect, make the decision as to whether to commence a prosecution by impeaching the president. Indeed, if anything, the strength of the evidence should be greater to justify impeachment, than to try a criminal case.

I will now turn to the issue of whether, from the perspective of a prosecutor, there exists a prosecutable case for perjury in front of the grand jury. The answer to me is clearly no. The president acknowledged to the grand jury the existence of an improper intimate relationship with Monica Lewinsky, but with the prosecutors questioning him that his acknowledgment was not of a sexual relationship as he understood the definition of that term being used in the Jones deposition. Engaging in such a debate, whether wise or unwise politically, simply does not form the basis for a perjury prosecution.

Indeed, in the end, the entire basis for a grand jury perjury prosecution comes down to Monica Lewinsky's assertion that there was a reciprocal nature to their relationship, and that the president touched her private parts with the intent to arouse or gratify her, and the president's denial that he did so.

Putting aside whether this is the type of difference of testimony which should justify an impeachment of a president, I do not believe that a case involving this kind of conflict between two witnesses would be brought by a prosecutor, since it would not be won at trial.

Apart from issues of censure, we live in a democracy, and one sanction that can be imposed is by the voters acting through the exercise of their right to vote. President Clinton lied to the American people, and if they believe it appropriate they were free to voice their approval by voting against his party in 1998, and remain free to do so in 2000, as occurred in 1974 when the Democrats secured major gains. The answer to every wrongful act is not the invocation of punitive legal processes.

Edward Dennis Jr.

I am opposed to the impeachment of President Clinton. My opposition is grounded in part in my belief that a criminal conviction would be extremely difficult to obtain in a court of law. There is very weak proof of the criminal intent of the president.

The Lewinsky affair is of questionable materiality to the proceedings in which it was raised. And I believe that a jury would be sympathetic to any person charged with perjury for dancing around questions put to them that demanded an admission of marital infidelity; that is, unless the answers were essential to the resolution of a very substantial claim.

On another level, I sense an impeachment under these circumstances would prove extremely divisive for the country.

try, inflaming the passions of those who would see impeachment as an attempt to thwart the election process for unsubstantial reasons.

The consequences of the impeachment of the president of the United States are far-reaching. These consequences are grave, and they impact the entire nation. Impeachment in my view should not serve as a punishment for a president who has admittedly gone astray in his family life, as grave as that might be in personal terms. Where there is serious doubt, as there must be in this case, prudence demands that Congress defer to the electoral mandate.

I will now turn to the issue of whether, from the perspective of a prosecutor, there exists a prosecutable case for perjury in front of the grand jury. The answer to me is clearly no. The president acknowledged to the grand jury the existence of an improper intimate relationship with Monica Lewinsky, but with the prosecutors questioning him that his acknowledgment was not of a sexual relationship as he understood the definition of that term being used in the Jones deposition. Engaging in such a debate, whether wise or unwise politically, simply does not form the basis for a perjury prosecution.

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Ronald Noble

I submit that a federal prosecutor ordinarily would not prosecute a case against a private citizen based on the facts set forth in the Star report.

Federal prosecutors and federal agents as a rule ought to stay out of the private sexual lives of consenting adults. Neither federal prosecutors nor federal investigators consider it a priority to investigate allegations of perjury in connection with the lawful, extramarital, consensual, private sexual conduct of citizens.

In my view, this is a good thing. From a pro-active perspective, who among us would want the federal government to initiate sting operations against private citizens to see about our extramarital affairs or the nature of our sexual conduct.

There are 10 good reasons, taken in combination, which support the view that a career federal prosecutor asked to investigate allegations like those in the Clinton-Lewinsky matter would not pursue federal criminal prosecution to the indictment or trial stage.

One, the alleged perjury occurred in a civil deposition and concerned private, lawful, sexual conduct between consenting adults. Two, the alleged perjured testimony was deemed inadmissible by the trial judge. Three, that evidence arguably was dismissed as immaterial by the trial judge. Four, in any event, the alleged perjured testimony was, at most, marginally relevant. Five, the alleged perjured testimony did not affect the outcome of the case.

Six, the parties settled and a court dismissed the underlying civil suit. Seven, the settlement of the suit prevented the appellate court from ruling on a dismissal and on the materiality of alleged perjured testimony. Eight, the theoretically harmed party knew of the alleged perjury prior to settlement. Nine, alleged — and I say alleged — political enemies of the defendant funded it in a plaintiff's suit. Ten, a federal government informant conspired with one of the civil litigants to trap the alleged perjuror into perjuring himself.

William Weld

Let me just say, on the law of impeachment, I am pretty well convinced that adultery, fornication or even a false denial — false, I'm assuming perjury here — false denial of adultery or fornication, they do not constitute high crimes and misdemeanors within the meaning of the impeachment clause of the U.S. Constitution. They're not offenses against the system of government, they don't imperil the structure of our government.

Continued from Page 1

letter to the House to "respectfully request that you withhold making any decision" until the committee votes and panel members "have had an opportunity to discuss the merits with you."

A spokesman said that Mr. Hyde also planned to ask the committee to allow his chief investigator, David Schippers, to air Mr. Clinton's videotaped deposition in the Paula Jones sexual harassment case — a tape still secret under committee rules — to support the Republican case that Mr. Clinton lied.

At the same time, Mr. Hyde made a gesture to Democrats: He said he would allow a motion to censure the president, a lesser-of-two-easy outcome that Clinton aides would now embrace.

But the committee Republicans, in the majority, were expected to vote a censure down, and there was no certainty that a similar motion would be raised on the House floor.

Still, Mr. Hyde's comment, and his assurance that he was not goading Republicans to vote for impeachment, provided a slender ray of hope for the White House, as did a declaration by a moderate House Republican, Representative Amo Houghton of New York, that he would vote against impeachment.

In his defense, Mr. Ruff responded to repeated criticism from Republican committee members that the White House lawyers had provided no facts or evidence to refute the allegations in the report by the independent counsel Kenneth Starr that Mr. Clinton lied about his sexual relationship with Ms. Lewinsky and sought to cover it up.

If Mr. Clinton were a private citizen, the charges "would simply not be given serious consideration for prosecution," said Thomas Sullivan, a former U.S.

The remedy of impeachment is to remove the officeholder. Get the worm out of the apple. It's a prophylactic, prophylactic remedy, it is not punitive.

If any of you are thinking, "We've got to vote yes on impeachment to tarnish the president," he's already tarnished, and that's really not the purpose of the impeachment mechanism.

Nobody's going to forget this stuff. This is a man who's been elected president of the United States twice, and thus entitled to this office, after allegations very similar to those now before you.

I hate to open old wounds, but you remember back to 1992 and the Gennifer Flowers matter; if there are two people in a room and they both deny that something happened, then you can't prove that it happened. Well, that's very similar to what we're talking about here, and this officeholder was elected president of the United States twice after all those facts were before the people.

So, I come out thinking that the most appropriate result is something other than removing this person from his office, taking his office away from him. There's a lot of talk about censure. I think personally, the dignity of Congress and the dignity of the country demands something more than merely censure here, and I would suggest, in conclusion, Mr. Chairman, four things that you might want to think about, in addition to censure.

Number one, it's not unknown for grand juries investigating corruption in a city or a county, for example, to issue a written, detailed report of their findings. That could easily be done here, be entirely proper. Number two, there could be a written acknowledgement of wrongdoing on the part of the president, and for reasons which will become evident in a moment, I would not propose that there be insistence on the use of the word "lie" or "perjury" there, but it's something that could be negotiated to reflect the gravity of what he has done.

Number three, there could be an agreement to pay a fine. This is something tangible, more tangible than censure, and it involves the respondent as well as the moving party, the moving party here being the House.

And that would mark the moment. That would mark the solemnity of the occasion. And the agreement would remove any doubt about somebody going to court and saying there's no basis for this. It would be thrown out on the basis of the political question doctrine anyway, I think.

Finally, what I am proposing, the final element would be that the president would have to take his chances with respect to the criminal justice process post his presidency. I do not agree with those in the media who say that any deal on censure has to protect the president against criminal proceedings after he leaves office.

Lastly, I agree with everyone who's spoken before about whether a perjury prosecution here really lies. I think there's quite a low risk of that from the point of view of the president. So that's the suggestion.

It's a political suggestion, but this is in part a political process about a five-part deal, if you will. And I think the dignity of the House would be upheld if something like that were to be approached, and everybody could perhaps get on more easily with attending to the public's business.

Charles Ruff, Mr. Clinton's counsel

I appear before you today on behalf of the person who under our constitution has twice been chosen by the people to head one of the three coordinate branches of government.

Necessarily, I appear also on behalf of the man whose conduct has brought us to what for all of us is this unwelcome moment. Neither the president nor anyone speaking on his behalf will defend the morality of his personal conduct.

The president had a wrongful relationship with Monica Lewinsky and violated his sacred obligations to his wife and daughter. He misled his family, his friends, his colleagues and the public. And in doing so, he betrayed the trust placed in him not only by his loved ones, but by the American people.

The president knows that what he did was wrong. He has admitted it. He has suffered privately and publicly. He is prepared to accept the obloquy that flows from his misconduct and he recognizes that, like any citizen, he is and will be subject to the rule of law.

But, Mr. Chairman, the president has not committed a high crime or misdemeanor. His conduct, although morally reprehensible, does not warrant impeachment, does not warrant overturning the mandate of the American electorate.

In the nature of this extraordinary proceeding, no one can claim the ability to reach the absolute right answer. No one can claim to be free from doubt. But when all the questions have been asked and answered, when all the debate has ended, and when you look within yourselves and ask, "Should I vote to exercise the most awesome power granted in our system of government?" I have no doubt that you will reach your decisions on the merits and I hope unswayed by mere partisanship.

This committee has heard much in the last two days and prior hearings on the subject of what the founding fathers meant to include within the term "high crimes and misdemeanors." And I will not even attempt to engage in the kind of scholarly discourse that has filled this room over the last days and weeks. But I suggest to you that although there are differences of opinions which have been voiced, the weight of scholarly and historical teaching is on one side, that nothing the president did falls within the constitutional definition of an impeachable offense.

Yes, there were witnesses who disagreed, enough to give anyone who wishes some intellectual cover. But I suggest to you that any fair-minded observer must conclude that the conclusion that in order to have committed impeachable offenses, the president must have acted to subvert our system of government. And that did not happen.

Continued from Page 1

attorney from Illinois. "It wouldn't get in the door. It would be declined out of hand."

Earlier administration witnesses gave similar testimony.

Yet, despite the mostly contrite and conciliatory tone of the White House counsel Gregory Craig, Republican anger and irritation with the president's evasions remained high.

Representative Robert Barr, a conservative Republican from Georgia who has been an unrelenting Clinton critic, told Mr. Craig on Wednesday: "After promising us yesterday that we would not hear technicalities and legalities today, that's all we hear: We still have this legal, technical parsing of words which really leaves us where we were before."

"Mr. Craig, shame on you."

Representative Bob Inglis, Republican of South Carolina, complained that the panelists assembled by the Clinton team had produced not a single fact to contest the allegations.

"Everybody that we've heard from in these four panels has given conclusions, not given legal opinions. Not a single person has presented a fact," he charged.

Mr. Ruff contested that.

Democrats responded to Republican anger with their own exasperation. "It's about sexual relations, and it's about touching," said Representative Robert Wexler, Democrat of Florida, "and now we're about to impeach a president because we

## EUROPE

# Beheadings of 4 Kidnap Victims Stir Outrage About Chaos in Chechnya

By Celestine Bohlen  
New York Times Service

MOSCOW — The gruesome killings of four kidnapping victims — identified as three Britons and a New Zealander — have heightened alarm and outrage about the volatile situation in Chechnya, the breakaway region on Russia's southern border that emerged undefeated from a brutal war two years ago only to be engulfed by a wave of kidnappings and crime.

Until now, local kidnappers have usually kept their hostages alive in hopes of receiving ransom money, which has become a major source of income in an economy devastated by Russia's 21-month war against Chechen secessionists.

[Chechen authorities were trying to

rescue the four foreign hostages when the kidnappers panicked and beheaded the victims, Chechnya's president said Wednesday, The Associated Press reported from Grozny, Russia.

Ashraf Maskhadov, the leader of the breakaway republic, said that one alleged kidnapper was arrested, and authorities then planned an operation to free the four hostages, the Interfax news agency reported.

A concrete criminal group was identified, an organizer of the abductions was arrested and an approximate location of the hostages was determined, Mr. Maskhadov said. "The criminals brutally executed the hostages while an operation for their release was under way."

The severed heads of the four men were found along a highway Tuesday

outside Grozny, the Chechen capital.

Although the corpses have not yet been found, Chechen officials said that they had been able to identify the victims as four employees of a British telecommunications company. They were kidnapped from their house in Grozny by two dozen armed men on Oct. 3, after a shoot-out with their bodyguards.

"It is a horrifying crime, committed against the international community," said Manolis Chikhiyev, an aide to Russian Aslanov, president of Ingushetia, a region that borders Chechnya. "Ordinary criminals wouldn't kill their hostages, which means that this situation is much deeper and more complex."

An estimated 100 kidnap victims — including several foreigners, as well as Russian servicemen — are still being held in Chechnya and neighboring re-

gions in the northern Caucasus. In neighboring Dagestan, kidnappers seized Herbert Gregg, an American teacher, on Nov. 12 as he was leaving a local orphanage. His whereabouts are unknown.

In recent months, the Chechen government has mounted a new campaign to crack down on the kidnapping gangs, an effort that was set back in October by a car bomb that killed the leader of its special anti-terrorist squad.

Mr. Maskhadov has accused his political opponents and "foreign agents" of using kidnapping as a weapon in its campaign to unseat him. But the crime wave is also attributed to competing local chieftains, Muslim extremists and other groups that have been feeding off the lawlessness and anarchy that has swept the region.

In October, a Russian official, Akmal

Saidov, was found strangled to death several days after he had been abducted. The motive was judged to be political after a note signed by the "wolves of Islam" was reportedly found on his body.

Fear of kidnapping has left Chechnya isolated from the rest of the world, as journalists, aid workers and foreign investors keep a wary distance from a region now so impoverished that, according to one local resident, some people are reduced to a diet of animal feed.

Yelena Maslyuk, one of three Russian television journalists kidnapped and then released last year after payment of \$2 million in ransom, said at an international conference in May that the kidnappers had cost Chechnya the sympathy it had won when Russian troops were bombing its capital and killing its civilians.

Most released hostages have reported that their captors were careful to keep them alive, if barely, so as to be able to collect their reward.

## In Kosovo, Menace Of Poisoned Wells

**Aid Groups Accuse Yugoslav Troops**

By R. Jeffrey Smith  
Washington Post Service

OVCAREVO, Yugoslavia — Shahen Tahiri and his family know from the powerful stench that they no longer can draw drinking water from one of their two wells. They barely have to look in to know that a dead dog or cow is floating on the surface.

The Tahiri family is one of thousands in Kosovo that are trying to cope with what appears to have been a deliberate effort by Yugoslav government troops to poison some residential water wells this autumn by heaving animals or hazardous materials into them.

The motive may have been to promote illness among the ethnic Albanian majority or to discourage people from returning to homes they had abandoned during the government offensive this year against guerrillas who have been fighting for independence for Kosovo, a province of the Yugoslav republic of Serbia.

Aid workers describe the poisonings as an unprecedented violation of the Geneva Convention regulating the conduct of warfare. Most of the poisonings appear to have occurred shortly before Yugoslavia withdrew many of its forces under threat of NATO air strikes in October, allowing thousands of refugees to return home.

Since then, residents in at least 58 villages throughout Kosovo have informed foreign aid organizations that their wells contain dead dogs, chickens, horses, garbage, fuel oil, flour, detergent, paint and other contaminants. Although many of these reports have not been confirmed, a few aid groups that have begun testing and cleaning residential wells in villages say they have found evidence to confirm the allegations.

The well poisonings and fear of contamination have caused residents to stop using accessible water for cooking, drinking and cleaning in rural areas, and promoted the spread of diseases because of poor hygiene, the groups say. Some people say they now walk more than a mile to collect water in buckets from uncontaminated wells, while others are drinking from wells tested by village leaders who acted as guinea pigs for the entire community by drinking the water for one week.

"I think the contamination is widespread" in areas where heavy conflict occurred or Yugoslav military headquarters were located, said Glenn Hanna, a Canadian who is the chief water engineer for the International Committee of the Red Cross in Kosovo. "When the police pulled out, they tried to do as much destruction as possible, and the water was an obvious target."

Mr. Hanna estimates that the number of poisoned wells may be in the thousands. Such poisonings have been confirmed in six villages so far by Oxford, a relief group that specializes in water problems here. In the town of Banja, located southwest of Pristina, the provincial capital, for example, engineers from the group cleaned seven wells and found dead chickens in one and an open can of paint in another — a form of toxic chemical contamination that would be particularly harmful to small children.

The ability of the villages to handle the problem is minimal. Each residence typically has its own well, making the task of cleaning all the wells or certifying that they are safe extremely laborious. But the issue is almost irrelevant, because none of the villages have access to water-testing equipment, and many water pumps — which could have been used to empty the wells so they could be cleaned — were stolen when the troops withdrew, residents say.

In Ovcarevo, a village with 160 homes and a population that supported the Kosovo Liberation Army, the ethnic Albanian separatist group, Naser Krustemi, an elementary-school teacher, said that as many as 70 percent of the wells might be contaminated in the aftermath of occupation by Yugoslav security forces.

### BRIEFLY

#### Havel Apologizes on Spy Charge

PRAHA — Helmut Zilk, a former mayor of Vienna, came to Prague this week to receive the apologies of President Vaclav Havel and other Czech Republic dignitaries who had accused him of working for the StB, the former Communist Czechoslovak secret police.

He left with a grudging apology from the Mr. Havel, cleared of being an active collaborator, but still mired in controversy. Charges that Mr. Zilk had collaborated with the StB surfaced in a German newspaper in October.

The two men met late Tuesday at Mr. Havel's home, president apologized for the part of the guilt for which the office of the president was responsible. A Czech government commission last week cleared him of knowingly collaborating with the StB.

#### Yeltsin Seeks Rest in Country

MOSCOW — President Boris Yeltsin was released from the hospital Wednesday after more than two weeks of treatment for pneumonia. He moved in a secluded country residence outside the capital, the Kremlin said. Mr. Yeltsin has rarely been seen or heard since he was admitted to the Central Clinical Hospital on Nov. 22. He appeared in the Kremlin for three hours Monday to fire several top aides and then returned to his hospital bed.

Mr. Yeltsin's spokesman, Dimitri Yakuskin, said, "Doctors are generally satisfied with the president's condition."

#### For the Record

Chancellor Gerhard Schroeder's intelligence chief, Ernst Uhlrich, is demanding that the United States return former Communist East German spy files the CIA allegedly grabbed at the end of the Cold War.

Michael Sullivan, a former governor of Wyoming, has been sworn in as U.S. ambassador to Ireland. He succeeds Ambassador Jean Kennedy Smith.



MS. PRESIDENT — Interior Minister Ruth Dreifuss became on Wednesday the first woman and the first Jew elected president of Switzerland. The largely ceremonial post rotates annually among the seven members of the coalition cabinet.

## Le Pen Fires Deputy As Party Strife Grows

Agence France-Presse

PARIS — The leader of France's far-right National Front, Jean-Marie Le Pen, dismissed his deputy, Bruno Megret, on Wednesday after Mr. Megret joined party rebels in a move intended to challenge Mr. Le Pen's authority.

A statement from Mr. Le Pen said Mr. Megret had been stripped of his post and replaced by a Le Pen loyalist, Carl Lang. The abrupt dismissal came barely two hours after Mr. Megret joined party rebels in calling for a special party conference in January that could have sought majority support to unseat Mr. Le Pen.

At a news conference, Mr. Megret called on National Front supporters to attend "a big conference of unity and renewal."

Mr. Megret said he was not challenging Mr. Le Pen's leadership of the National Front and offered no criticism of the party leader.

The anti-immigration party has been thrown into turmoil by the rebellion of supporters of Mr. Megret, Mr. Le Pen's would-be successor.

The National Front leader this week purged the party leadership of Megret supporters.

The idea of calling a special conference to discuss divisions within the party was launched Monday by Serge Martinez, who heads regional branches.

Mr. Martinez was immediately fired by Mr. Le Pen, along with other proponents of the conference.

In an editorial published in the weekly National Hebdo, which is close to the party, Mr. Le Pen said the National Front had "better things to do" than hold party conferences.

The friends of Bruno Megret and the Euro MP Jean-Yves Le Gallou are calling loudly for a special conference, which they say will "allow the grass roots to express itself," despite the fact that I was elected last year for three years and that in a few months we face the European elections and campaigning and have, we must admit, better things to do," Mr. Le Pen wrote.

Mr. Megret, 49, represents a different generation and type of far-right French politician than the older and outspoken but often charismatic National Front leader, who is 70.

Mr. Le Pen, who has long ruled the Front with an iron fist, has repeatedly resisted taking problems to the grass roots and has been known to say, "I am the party."

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## ASIA/PACIFIC

# Suharto Is Questioned On Financial Dealings

**Prosecutors Focus on Possible Misuse of Funds**

By Seth Mydans  
New York Times Service

JAKARTA — As hundreds of soldiers and several small tanks blocked off streets to prevent student protests, state prosecutors questioned former President Suharto for four hours Wednesday about his wealth and financial dealings.

"No one is above the law," the former president said, smiling, as he emerged from a government office where six investigators had asked him 43 questions.

"I have answered all the questions, and I am prepared to give further explanations if the attorney general's office wishes," he said, as security men wrestled to hold back a shouting throng of reporters.

One of his team of eight lawyers, Jafar Assegaf, said Mr. Suharto responded to the questions "in a straightforward and relaxed manner."

That was not the mood on the streets later Wednesday where student demonstrators shouted for Mr. Suharto to be put on trial or, more expeditiously, simply hanged.

As the almost daily street protests have continued over the past two weeks, often at three or four locations simultaneously, the discontent they express has come to focus more and more keenly on Mr. Suharto himself.

The demonstrators have tried repeatedly to storm his heavily guarded house, and they had hoped to shout their anger Wednesday outside the building where he was being questioned.

Mr. Suharto has been driven from power but his shadow still darkens the country. People continue to hold him in fear and awe and there are some who cannot help seeing his hand behind the killings and disorders that continue to destabilize the country.

His resignation under pressure May 21 amounted to an unfinished revolution. Although he is gone, his government and many of his retainers remain in place, and Mr. Suharto himself, at the age of 77, has simply settled into a quiet retirement at his home in a well-to-do residential neighborhood.

His successor as president, B.J. Habibie, and many other top officials grew wealthy along with Mr. Suharto and owe their positions to him. Even the attorney general who is investigating him, Mohamad Orialib, has long-term ties to Mr. Suharto.

For this reason, most people outside government, including the demonstra-

tors and much of the press, are skeptical that an official in-house investigation will get very far.

"I'm happy they're investigating him, but I don't think this is going to be the investigation that I dream of," said Aca, 22, who took part in one of three student protests Wednesday. "I believe a lot of people in government, including the attorney general, have a lot of respect for Suharto and are even still afraid of him."

In a recent editorial, the daily Jakarta Post called for a serious investigation that would make a clean break with the past. "A solid future cannot be built on decayed foundations," it said.

Last week, Mr. Suharto's legal adviser, Yohanes Yacob, made clear the problems with this approach. His words could also be read as a threat.

"If Suharto does go to court, it could drag down the government, bringing senior incumbent and former officials, as well as all the cronies suspected of accruing ill-gotten wealth, into messy litigation," he said.

Indeed, the questioning Wednesday seemed to skirt the toughest questions of illegal or hidden wealth.

Although independent estimates of Mr. Suharto's wealth have run into the tens of billions of dollars, the former president has admitted to having only about \$3 million in three Indonesian bank accounts.



Indonesian riot police wrestling with a student as security forces beat back protesters Wednesday in Jakarta.

An interview Friday with a local magazine, he said this money had been saved from his income as president and supplemented by rent from two houses in Jakarta he has leased to foreigners.

The questions focused primarily on the possible misuse of funds held by several of Mr. Suharto's tax-free charitable foundations and on multimillion-dollar tax breaks he decreed three years ago for a "national car" to be manufactured by his youngest son.

Last month, the government said Mr. Suharto had handed over seven charitable foundations worth \$530 million.

But the public accusations against him are far broader. He is believed to

have masterminded a huge network of graft in which his friends and six children profited by kickbacks or ownership of most of the country's major enterprises, from banks to toll roads to timber export.

A problem here is that many of these holdings may have been technically legal within the system Mr. Suharto created, even though, as the Jakarta Post said, "they clearly must have been accumulated through improper means."

In his interview Friday with the monthly magazine *Dharmais*, Mr. Suharto said he is an innocent target.

"I am nothing now," he told his interviewers. "I have resigned."

*Anthony Gobert/Agence France Presse*



Suharto: "I answered all questions."

## U.S. and Japan at Odds Over Old War Crimes Cases

By Teresa Watanabe  
Los Angeles Times Service

LOS ANGELES — Japan is stymying American efforts to identify suspected war criminals by failing to cooperate with requests for information, U.S. officials have said publicly in a statement for the first time.

"Japan is the only country in the world from whom we seek assistance that does not provide it," Eli Rosenbaum, director of the U.S. Justice Department's Office of Special Investigations, said this week in the government's first public criticism of Japan.

"It is wrong. For a friendly government to know there are people we're trying to keep out of our country and be unwilling even to give you birth dates is wrong."

Although the government in the past had deliberately not commented on the issue, "there just comes a time when it's obvious they are not going to assist and there is no point in refraining from disclosing this any longer," Mr. Rosenbaum said.

Japanese officials in Washington declined to comment.

The government statement came about in part because of efforts by the Simon Wiesenthal Center in Los Angeles, which has been widening its human-rights mission beyond issues of Nazi war crimes to include the divisive subject of Japan's war misdeeds.

The center's involvement in the war crimes issue began last year, when a Los Angeles writer, Kinue Tokudome, invited Rabbi Abraham Cooper, the center's associate dean, to meet with six repentant Japanese war veterans in

Tokyo. Moved by the gripping confessions — one man tearfully recalled how he cut down a 12-year-old boy begging for his life to teach other soldiers how to kill — Mr. Cooper sought ways to bring their stories to the United States.

He also stepped up efforts to obtain a public statement from the U.S. government about Japan's war record.

Unlike Germany and other European nations that have cooperated extensively with U.S. efforts, Japan, despite years of requests, has not granted access to archival records or even confirmed the birth dates of suspected war criminals independently identified by U.S. investigators, Mr. Rosenbaum said.

The Justice Department office was charged in 1978 with deporting, or barring from entry into the United States, perpetrators of World War II crimes

against humanity from Germany and its former Axis allies.

Within Japan, intense domestic opposition to cooperation, along with concerns over legal liability if privacy rights are violated, are known to be factors hobbling the government.

The issue of wartime atrocities, such as the 1937 slaughter of Chinese in the city of Nanjing, germ warfare research by the Japanese Army and forced sexual servitude to Japanese troops by women, primarily Koreans and Chinese, has relentlessly dogged the Japanese for more than a half-century.

Last week, the Japanese ambassador, Kunihiko Saito, went on television in the United States to debate Iris Chang, author of the best-selling book "The Rape of Nanking," and argue — again — that Japan has apologized numerous times for its war misdeeds.

## BRIEFLY

### Suspect Arrested In Japan Poisoning

TOKYO — A woman in custody on suspicion of insurance fraud was arrested Wednesday on murder and attempted murder charges in a mass poisoning that killed four people in southwestern Japan.

Masumi Hayashi, a former insurance saleswoman, is suspected of slipping arsenic into curry served at a July 25 community festival that killed four people, including two children, and sickened 63 people.

The poisoning set off a spate of copycat crimes with drinks at stores and in vending machines, including a can of tea that killed a man. (AP)

### New Prime Minister Chosen in Mongolia

ULAN BATOR, Mongolia — Mongolia's Parliament approved a new prime minister on Wednesday, ending a seven-month-old political crisis that paralyzed the fledgling democracy.

Jandav Narantsatsal, the mayor of the capital, Ulan Bator, was elected by a vote of 36 to 21 and replaced Tsakhiagiin Elbegdorj, who has served as caretaker prime minister since being forced to resign in July, two months after the opposition launched a boycott of Parliament over the privatization of a state bank. (AP)

### Military Scolded In South Korea

SEOUL — Chung Yong Taek, South Korea's defense minister, reprimanded his army and air force chiefs of staff Wednesday for a recent series of military accidents that left five soldiers dead.

The mishaps included the firing of an air defense missile into commercial airspace over the city of Inchon last Friday. (AP)

### For the Record

China warned Taiwan on Wednesday against "playing with fire" on the independence issue. The Taiwan Affairs Office accused unnamed Taiwan officials of "conning to use a citizen vote" to declare independence for the island. (AP)

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By Alan Truscott

### A TRANSPLANTED:

A Scotswoman was leading after the qualifying stage of the Blue Ribbon Fair Championship at the American Contract Bridge League's Fall Nationals. Barnet Shoenkin, one of Scotland's top players for many years but who now lives in Boca Raton, Florida, was partnering Neil Silverman of Fort Lauderdale, Florida, a former world champion.

New York experts were among the winners in two major Board-a-Match Championships. The Open Teams was won by Brad Moss of Manhattan, together with Fred Gitelman and George Mittelman, both of Toronto. Michael Whitman of San Francisco and Grant Baze of

La Jolla, California. The Women's Teams was won by Sylvia Moss and Judi Radin, both of Manhattan. Shawna Quinn of Katy, Texas, and Peta Hamman and Peggy Sutherlin, both of Dallas.

In the diagramed deal from the Women's Teams, Jo Ann Spring, who won a bronze medal in the World Women's Teams in Lille, France, in August, held the West cards. By sowing doubt in the declarer's mind, she succeeded in defeating an "easy" game contract.

Her double of one spade was a support double, showing three cards in her partner's heart suit. Her eventual double of four spades was based on her three aces and these were due to take tricks. But no fourth trick was available for the defense.

At other tables four spades was made easily when South picked up the spade king with a finesse. But after Spring cashed the club ace, on which her partner, Joann Glasson, dropped the queen, she led a low heart. East won with a problem. Since underleading an ace would be dangerous for West, it appeared that East held the ace-king of hearts and the queen-jack of clubs.

In that case, there was little high-card strength left for West, who had opened the bidding and doubled. East returned the spade six at the third trick, and after some agony South put up the ace in the hope of dropping a singleton king. East's spade king scored for the defense, together with the diamond ace, and her team won the board, thanks to the underlead of the heart ace. In the replay, four spades doubled was made after the normal spade finesse.

### BRIDGE

NORTH

♦ 8 7 3 2

♦ Q ♦ K ♦ 8 ♦

♦ 9 ♦ 8 ♦ 7 ♦

♦ 6 ♦ 5 ♦ 4 ♦

♦ 3 ♦ 2 ♦ 1 ♦

♦ A ♦ Q ♦ 9 ♦

♦ 8 ♦ 7 5 4 3

♦ 2 ♦ 1 ♦

# CÔTE D'AZUR: WHERE INFORMATION TECHNOLOGY FLOURISHES

## AN INTERNATIONAL AND CREATIVE CHARACTER

*The French Riviera is a microcosm of the world's best aspects.*

**N**ewsweek magazine recently branded Sophia Antipolis on the Côte d'Azur as one of the 10 international "hot-new tech cities" that are challenging Silicon Valley's supremacy in high-tech innovation and business success.

The area's 370 information technology companies have annual revenues of 17.8 billion francs (\$3.2 billion) and account for 15,500 jobs. Sophia Antipolis, a technology park located between Nice and Cannes, 15 minutes from the Nice-Côte d'Azur Airport, has provided many of these dynamic companies with a welcoming base whose international ambience and cooperative spirit help nurture creativity.

Historically, the Côte d'Azur's main source of revenue has been tourism, and in a way, its lack of an industrial base contributed to its development as a high-tech center. When heavy industries began to shut down in developed countries, the region was not burdened with idle production facilities that had to be converted to other uses at great cost. The way was clear for the establishment of new types of business. High-tech companies like IBM and Texas Instruments chose the Côte d'Azur as their site for some of their European operations as early as the 1960s. While their activities have changed since then to conform to the evolution of markets and technology, both companies have remained active in and loyal to the area.

**R**eady to fly? Many international companies cite the presence of an international airport in Nice as a major reason for their decision to do business on the Côte d'Azur. "We chose Nice," says Michel Duponchel, director of industry solutions, telecommunications and media EMEA (Europe, Middle East & Africa) of IBM La Gaudie, "because it has the second-largest international airport in France. We had to be near an international airport because we have an international market. We need contact with our customers to find solutions for them."

## EVERY SECTOR UNDER THE SUN

*For a glimpse of the future, come to the Côte d'Azur.*

**M**ost of the information technology (IT) companies on the Côte d'Azur have two things in common: the creativity of their output and their international nature, in both the composition of their staff and their markets.

An example of a highly creative enterprise is Toyota's new European Design Center, where the Japanese carmaker's vehicles will be adapted to the European market and new international models designed. In July, the company chose Sophia Antipolis as its site over two other European cities for the "quality of its environment, which favors creativity."

"In terms of internationality, Amadeus is definitely a winner, with a permanent staff of 850, composed of some 25 nationalities."

This vibrant high-tech community is active in the following sectors:

**Competing** IBM arrived in 1961, at a time when the company was interested in expanding its telecommunications activities. The site has since moved, from working on PBXs and primitive modems to "global solutions."

IBM's mission at the beginning was mainly research and development," says Michel Duponchel, director of industry solutions, telecommunications and media EMEA (Europe, Middle East & Africa), "but now R&D represents only around 20 percent of our activity. We are in the 'solutions' business — working with customers on industry problems and finding solutions with IBM and other products."

One of these solutions is the new open-standard software platform that IBM is developing in partnership with France Telecom. The platform will be used to support a generation of inexpensive devices, such as mobile phones, that will provide fast, easy access to the Internet, even for technophobes.

Texas Instruments opened a production site on the Côte d'Azur in 1961 because of the presence of the international airport, according to Cf. Christian Tordt. Aspirations changed over the years, the site's vocation changed. It is now involved exclusively in the design and development of integrated circuits, particularly for mobile telephony.

### Côte d'Azur Développement

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Web: <http://www.cad.fr/>  
<http://www.cad-cote-d'azur.or.jp>

"It is unusual," says Clive Hoggar, communications director, "because we have been a semiconductor specialist since 1952, when the transistor was invented."

Not many companies have made the subsequent transitions, but TI has adapted."

The company's local workforce of 400 is made up of 20 nationalities, and "it's easy to attract qualified personnel here because of the high quality of higher education in the region," says Mr. Tordt.

AlliedSignal, the U.S. giant in the auto, aeronautical and chemical industries, recently chose Sophia Antipolis as the site of its European Computer Center in part because of its excellent telecommunications infrastructure.

**Microelectronics**

Microelectronics companies have been multiplying on the Côte d'Azur this year. In May, U.S.-based Cadence Design Systems, the world leader in electronic design software and services, created an R&D unit near the sites of many of its customers, including Texas Instruments, VLSI and IBM.

Mentor Graphics, another U.S. company and a leader in

the design and automation of electronic systems, opened an R&D center.

Siemens, the leading European maker of electric and electronic equipment, also opened an R&D center specializing in microelectronics. Albert Stritter, director of Siemens' Antipolis Design Center, says the company chose the Côte d'Azur for its assistance programs, infrastructure and attractive

**Services**

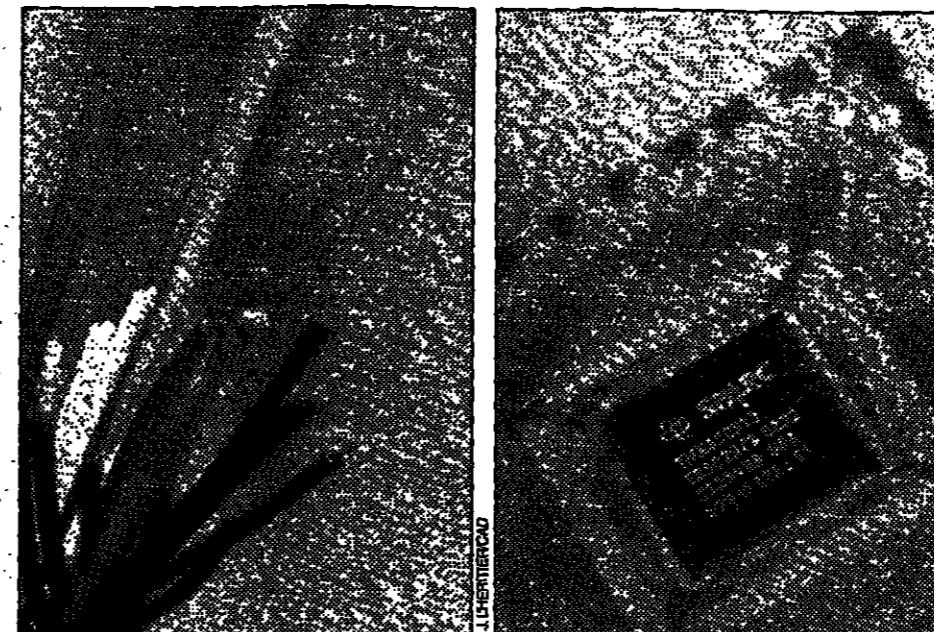
Amadeus, the leading international electronic reservations system for air travel and tourism, is owned by Air France, Continental Airlines, Iberia and Lufthansa. The company's product development arm is based in Sophia Antipolis, where it has a staff of 850 (plus 250 consultants).

Bowtie Global Solutions specializes in localization: the re-engineering and adaptation of software for local markets around the world. The company also locates Web sites, communications equipment, medical instruments and devices, pharmaceutical products and financial services.

SIP, a specialist in technological solutions for financial products, last year won a contract for the development of an on-line financial services multimedial system for a leading French insurance company, Groupama.

The Finnish company

Trema, which is also a specialist in computerized financial products, recently decided to move its commercial operations to the Côte d'Azur; the group will join the company's R&D center and customer training facility there.



the region, 80 percent of them in the IT sector; the total for this year should be around 1,100, according to Marketing Director Philippe Servetti. New arrivals in the area include SAP, Siemens, Toyota, Lucent, Cadence and Mentor Graphics.

"We offer them a one-stop shop," says Mr. Servetti, "a port of entry that is confidential and multilingual. We give them all the elements they need to establish themselves here, and more."

CAD provides help with marketing studies and finding appropriate sites, and remains in partnership with companies after they decide to move to the Riviera.

The Côte d'Azur multinational population is served by a number of international schools, including the International Center of Valbonne for middle and high school students and the Mougins School for primary and secondary level courses, both located in Sophia Antipolis. The International School of Nice covers kindergarten through high school levels.

One initiative that will help more small companies to establish themselves in the region is the 2nd International Capital Risk Summit, which took place in Sophia Antipolis on Dec. 7-8. The summit provides start-ups with the opportunity to meet with

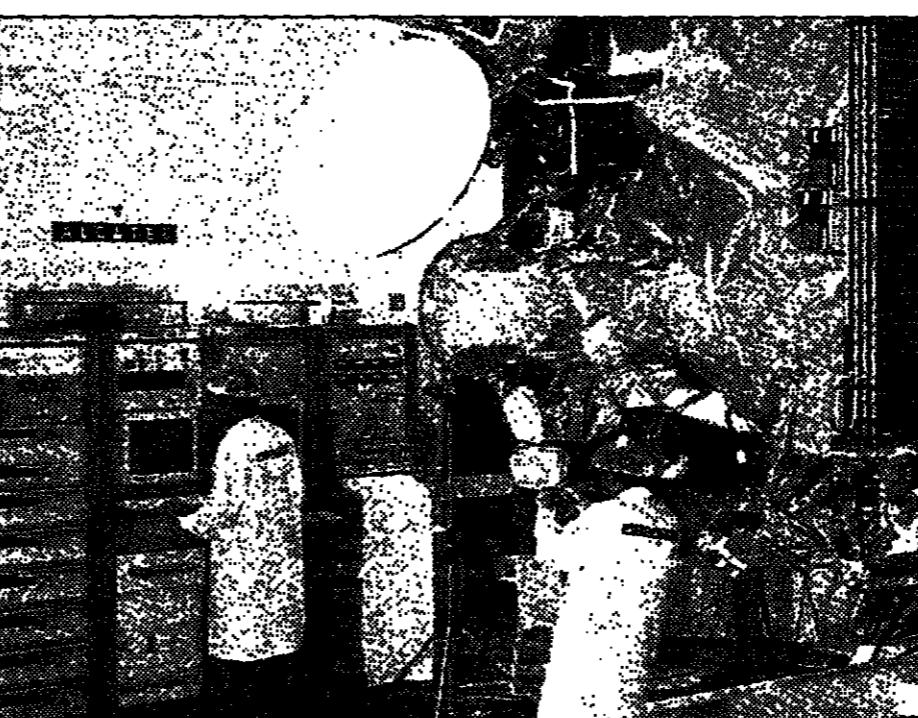
venture capitalists from all over the world. "This is essential for attracting start-ups," says Mr. Servetti.

"We're setting up a regional network of business angels and a special seed-money fund," adds Roselyne Koskas of the Route des Hautes Technologies.

Start-ups are also aided by the International Center for Advanced Communication (CICA), which can house them at its Sophia Antipolis site and provide high-tech facilities for their first year.

Important conferences and meetings are held year-round on the Côte d'Azur. The 5th Microsoft Tech Ed, the largest European conference on Microsoft technologies, took place in Nice in July. The U.S. IT consulting company the Gartner Group attracted more than 5,000 participants to its November congress in Cannes on new computing and networking technologies. The International Content Market for Interactive Media (MILA) trade fair takes place in Cannes in February. The International Film and Program Market for TV, Video, Cable and Satellite (MIPCOM) is held in Cannes in October.

In January 1999, IMAGINA — devoted to cyberspace, computer graphics, special effects, games and much more — will take place in Monaco. ■



This company employs 1,400 aerospace personnel in Cannes. Major projects are under way on the Côte d'Azur that will employ hundreds more beginning next year.

ness to engineers. The center currently employs 76 and will have a staff of 150 by the end of next year.

**Software**

A notable arrival on the Côte d'Azur this year was SAP, the world leader in software packages. Starting out with 50 engineers, the company plans to have 300, both French and foreign, on staff within two years.

According to Philippe Servetti of Côte d'Azur Développement, SAP chose Sophia Antipolis for its new site in part because of the ease of recruitment and the presence of research centers like INRIA.

The company also likes being near Amadeus, one of its major clients.

**Another newcomer** is U.S.-based Lucent Technologies, which opened a Solutions Center for Communications Networking in Sophia Antipolis. It will share space with Lucent's Bell Labs Regional Technical Center for Communications Software.

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Jacques Lignières, senior vice president and general manager of the 10-year-old Amadeus, says it is "the example of an international company." An international staff is indispensable for adapting Amadeus products to different cultures around the world. "We chose the Côte d'Azur because we needed a solid infrastructure," says Mr. Lignières, "and because it is easier to attract people to the area."

Amadeus is building a new trainees' training center and customer center, and continues to develop new products to increase its range of services for travel agents, which includes rail, cruise, ferry, tour and hotel reservations.

**Telecoms/networking**

France Telecom on the Côte d'Azur is the site of an experimental ATM (Asynchronous Transfer Mode) platform that is capable of transmitting voice, images and data at speeds of 155 megabits per second. The area was chosen for this activity because of the presence of Sophia Antipolis and the standards bodies ETSI and the W3 Consortium, as well as users of the European pilot ATM: Eurecom, INRIA and Alcatel Space. Also important was the presence of

three-quarters of the world's ATM builders in Telecom Valley, including many American companies.

"Because they were here," says Project Director Francis Stefanini, "we knew the platform would have applications."

France Telecom is not alone in the telecommunications arena. Norsat Networks, maker of telecommunications standards Institute, ETSI works with more than 600 companies, some 3,500 technical experts and other international standards bodies to develop a wide range of standards and technical documentation. It is the only standards organization to offer its publications free on the Internet ([www.etsi.org](http://www.etsi.org)).

**Multimedia**

A number of innovative young companies are working in the multimedia sector. Dust Restoration is a startup that has developed a unique digital system for restoring old movies at a much lower cost than other methods. Dust had assistance from IBM and local engineering students and researchers in the development of the process.

Another startup, Realviz, creates time- and cost-reducing software for special effects, including three-dimensional images and computer animation. Realviz's youth team was assisted by INRIA and Medialab, a subsidiary of Canal+.

**Space technology**

Alcatel Space Industries (formerly Aerospace) is one of the few high-tech companies that has a production site on the Côte d'Azur. It employs 1,400

## COLLEGIALITY MAKES IT TICK

Working in the Côte d'Azur's Information Technology (IT) sector is not about sitting in front of a computer screen in a cubicle all day. A real international community has sprung up around the sector's 370 companies, involving many forms of creative exchange and cooperation among companies, universities, research centers and the people who work for them.

IBM La Gaudie arrived on the Côte d'Azur in 1961. "When other companies came to the area," says Michel Duponchel, director of industry solutions, telecommunications and media EMEA (Europe, Middle East & Africa), "it created a critical mass in telecommunications. Together we created the professional association Telecom Valley in 1991."

According to Mr. Duponchel, young people in high-tech professions have new ways of working. They are less interested in long-term career goals and more interested in a balanced lifestyle. A pleasant environment, space, sports and culture are important to them. "It's clear," he says, "that Nice offers all of this, plus the possibility of changing jobs because there are so many companies here."

### Pilot projects

Francis Stefanini, project director at France Telecom, points out that the Côte d'Azur is a good place to experiment on such projects as its high-speed ATM platform because of the presence of so many innovative users. France Telecom — together with Telecom Valley, l'Institut Méditerranéen de Télécommunications et l'Institut Data Base Forum — has set up an association called EuroSud 155 to encourage the development of new uses for the ATM network.

"The idea is to transform experiments into useful, profitable services," says Mr. Stefanini, "through cooperation between companies."

### Clubby atmosphere

The Côte d'Azur may be abuzz with technological innovation, but this does not rule out human contact. Dozens of professional clubs and associations have been formed to encourage cooperation and exchanges among companies and organizations.

"This place is special," says Roselyne Koskas, consultant to the president of the Route des Hautes Technologies. "Because there are so many foreigners here, there are special mentalities. Nothing is fixed; everything is on the move. All types of clubs and associations that encourage informal exchange of ideas have grown up around our companies and universities."

As an example of this process at work, she cites the MedSat project, which will link countries on both sides of the Mediterranean via satellite. University courses, for example, will be beamed to Tunisia, giving the country access to increased higher education without the cost of building new infrastructure.

"These clubs and associations are one of the reasons for the success of Sophia Antipolis," says Philippe Bardey, president of the Club Hi Tech, which brings together 70 enterprises, including companies, universities and research centers.

He mentions air quality as an example of a problem that could be dealt with through "cross-fertilization" between several sectors: in this case, the health, environmental and high-tech sectors.

### Telecom Valley

The Telecom Valley Association, whose 60 members account for 8,000 jobs and \$2 billion in revenues, has specific goals intended to publicize the area's "unique expertise" in telecommunications and IT, and continue to attract new business and new talent in these areas. Telecom Valley organizes advanced technology experimentation, contributes to developing a pool of high-quality subcontractors and coordinates the needs of its members in terms of higher education and continuing training.

"Our vision," says Christian Tordt, president of the Telecom Valley association, "is to be the first community to anticipate, develop and promote the uses, services and technologies that are building the future of telecommunications."

Among the many other similar organizations are the Data Base Forum, a club that brings together database publishers and users with computer manufacturers at bimonthly meetings, and Club MITSA, an association for companies in the multimedia industry.

people at its Cannes-based facility. The company builds Meteosat, Arabsat, Eutelsat and ASTRA satellites that relay television signals and weather information. The 48 satellites (plus eight backups) of its Globalstar project, to be operational next year, will make global mobile telephony possible. In 1999, production will begin on another futuristic project, SkyBridge, which will use 80 satellites to provide high-speed global access to interactive multimedia communications, with both broadband and narrowband services.

Alcatel's complex operations require the assistance of some 40 subcontractors, representing 600 jobs, which have relocated to be near its center in Cannes. One of them, Espri Concept, a specialist in the architecture and integration of technical information systems, was created in 1989 at the instigation of Aerospatiale by four young engineers. NASA, the U.S. space agency, recently expressed interest in the company's technology for the integration of satellite software.

The Côte d'Azur is also home to one of the branches of the Ecole des Mines, the French national engineering school; Eurécom, a research and training institute for advanced technologies; ESSI, which offers a diploma in computer engineering; and ESTINSA, another engineering school.

INRIA Sophia Antipolis is an information technology research center that has some 80 researchers working on 20 projects. It is the European host site of W3C, which is coordinating the evolution of Web protocols and languages. CERMICS is a laboratory shared by the Ecole Nationale des Ponts et Chaussées (an engineering school) and INRIA. ■

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## INTERNATIONAL

## Oldest Ancestor to Man Found in South Africa

By Lynne Duke  
Washington Post Service

**JOHANNESBURG** — The nearly complete skeleton and skull of the oldest ape-man ancestor, who swung in trees and also walked upright, has been discovered encased in 3.5 million years of rock and sediment inside a South African cave, scientists here announced Wednesday.

Yielding new clues to the so-called missing link in man's evolution, the hominid is the oldest discovered anywhere in the world, superseding even the famed Lucy skeleton found in Ethiopia, which was found to be 3.2 million years old.

The gender of the new South African hominid is not yet known, but it was a mature adult, about four feet tall, with features of both ape and man. It lived in what was then a heavily forested region near the modern-day city of Krugersdorp, about 30 kilometers (20 miles) west of Johannesburg. Though its fossil suggests it climbed trees and lived in the forest environment like a chimpanzee, it also was bipedal, which chimpanzees are not.

The hominid apparently fell into an underground cave, researchers say, perhaps dying on impact or from starvation. There it lay, face down and encased in rock, disturbed only by displacement of the ancient rock and by limestone blasting which took place in the 1930s.

Four years ago, a team of paleoanthropological researchers from the University of the Witwatersrand in Johannesburg, led by Ron Clarke, discovered fragments of the hominid's ape-like right foot and human-like ankle. Dubbed "Little Foot," it was one of the most important finds to emerge from the Sterkfontein Caves, among the world's richest ancient hominid fossil sites.

In July 1997, in a separate layer of rock, the hominid's tibia was discovered by Stephen Motsumi, one of Mr. Clarke's researchers, and in September,

after months of painstaking chiseling and dusting in the hard-as-iron stalagmite, Mr. Motsumi and a colleague, Nkowane Molope, discovered the hominid's skull, complete with jaws and teeth.

The find, which still is rock-bound inside the cave and will take a year to extract fully, represents a key link in evolution from ape to man, and it could prove a treasure trove in the study of how man came to walk upright.

"It clearly was a creature that had sprung loose from the trees," said Philip Tobias, a professor emeritus of anatomical sciences associated with the Clarke team. The hominid apparently had both "arboreal habits coupled with their terrestrial habits."

"We are getting down nearer and nearer to the critical parting of the ways of the hominid and the African ape, perhaps 5 to 7 million years ago," Mr. Tobias said.

The hominid represents several firsts. It is the first skull of an Australopithecus ever found with the upper and lower jaw intact, and with teeth, as well as the first skull of the species ever found with its skeleton. Scientists said it is the most significant South African find since the discovery in 1924 of the Taung child skull, found by Raymond Dart. Taung is in north central South Africa.

The Geomagnetism Laboratory at the University of Liverpool dated the hominid at between 3.22 and 3.58 million years old. In addition to being older than Lucy, the new hominid is older and more significant than the last ground-breaking find from Sterkfontein, that of the Mrs. Ples cranium, dated at 2.7 million years old, and found in 1947.

Mr. Clarke and his team members dramatically described how their "paleo-detective" work led to the discovery. "This story," Mr. Clarke said, "like all good detective stories, begins with a death."



Yasser Arafat's guards turning away from flying dust as the Palestinian leader's helicopter lands Wednesday.

Mr. Arafat told supporters that Israel had no right to stop him from declaring an independent state.

### ISRAEL: Netanyahu Begins to Run Out of Room to Maneuver

Continued from Page 1

agreement Mr. Netanyahu signed with the Palestinian leader Yasser Arafat on Oct. 23 at the White House. Officials say the next Israeli pullback from the occupied West Bank, scheduled for Dec. 18 under the accord, will almost certainly not take place on time.

And if Mr. Netanyahu loses a vote of confidence in the Knesset and must face new elections, the peace process will just have to wait. No one believes further pullbacks would be possible in the heat of an election campaign.

Practically from the day he took office in May 1996, Mr. Netanyahu has made a virtue of vagueness. When speaking with the pro-peace camp, the prime minister offered assurances that he wanted a deal with the Palestinians as much as anyone. When his audience was hard-

liners opposed to offering land in return for security, he left the firm impression that he would never give up land conquered by Israel in 1967 in return for Palestinian promises.

The ambiguity served Mr. Netanyahu well at home. But the Clinton administration ran short of patience and finally, at Wye River Plantation this autumn, Mr. Netanyahu was forced to commit himself to pullbacks. In his Likud party and among its rightist allies, the decision was heresy. A commitment to hold territory in what Jews call the Land of Israel, not give it away, was the bedrock of Likud's founding and ideology. In signing the Wye River Memorandum at the White House, Mr. Netanyahu had blurred the distinction between his party and the Labor Party. And he had put himself on the side of the peace camp.

For the past six weeks he has tried to obscure that fact to hold together his conservative coalition of immigrant, religious and nationalist parties. He staked out tough rightist positions, promising to expand Jewish settlements on the West Bank, confiscating Palestinian land in the West Bank to build bypass roads for the settlers, and moving toward con-

struction of a large housing project in East Jerusalem bitterly opposed by Arabs. He defended the agreement he had signed by saying how much he hated it, suggesting he had gotten the best possible deal under withering American pressure.

But no matter how much he tried to sound like a security hawk, Mr. Netanyahu had committed himself to the peace process. None of his explanations sufficed for his erstwhile hard-line allies. When, on Nov. 20, Mr. Netanyahu went ahead with the first of three scheduled troop withdrawals from the West Bank, it was the last straw for the Israeli right.

As long as he went forward with troop withdrawals, the Labor Party said it would support him.

But when he suspended further troop withdrawals last week, that backing was withdrawn. And key hard-liners refused to be lured back to Mr. Netanyahu's camp.

In the parliamentary session Monday, Mr. Netanyahu again promised all things to all potential allies. To hard-liners he suggested the pullbacks from the West Bank were finished. To Arab lawmakers he suggested they would resume after a brief hiatus.

The likelihood now is that Mr. Netanyahu will attempt a flurry of 11th-hour attempts to save his coalition by making alliances where he can find them. He may also try to cobble together a "national unity" government, a broad alliance that includes the Labor Party.

But the Labor Party smells blood, and Mr. Netanyahu's last-gasp attempts to attract allies and cut deals in the last couple of weeks have come to naught, largely because he has made so many contradictory promises.

Lawmakers such as Michael Kleiner of the Land of Israel movement, which opposes all pullbacks from the West Bank, say at this point they would support Mr. Netanyahu only if he delivered a written promise to freeze further withdrawals.

Another hard-liner, Benny Elon of the anti-Arab Moledet party, said the price for his support would be a public apology from Mr. Netanyahu — "to say in front of the nation, 'I was misguided and misled by Clinton and by Arafat when they took me to Wye and promised things, and I'm sorry that I went to this conference.'"

Yet, with Mr. Clinton arriving this weekend, Mr. Netanyahu is unlikely to make such a declaration. And he probably would not make it in any event. Given the broad public support for the peace process launched five years ago in Oslo and the Wye accord signed in October, any candidate for the premiership would have to embrace peace.

If new elections are called, Mr. Netanyahu's prospects are iffy. In the latest poll, conducted by the Calypso organization and published Wednesday by the newspaper Ma'ariv, the prime minister trailed Ehud Barak, the Labor Party leader, by 41 percent to 44 percent. In a race with Lieutenant General Amnon Lipkin-Shahak, a former army chief of staff who has been flirting with a political career, Mr. Netanyahu trailed by 35 percent to 52 percent.

The attack took place last week in the West Bank town of Ramallah. In response, Prime Minister Benjamin Netanyahu suspended the Israeli troop withdrawal in the West Bank.

The army spokesman's office said no statement that a soldier should have opened fire under such circumstances.

Corporal Myara told investigators that he was unable to act because he was incapacitated by one of the first rocks striking his head.

The attackers also stole Corporal Myara's rifle as he ran to safety. The pictures of Corporal Myara cowering on the floor and not trying to fight back touched off a debate over whether Israel had lost its nerve.

The army said it would discipline Corporal Myara's commanding officer.

## Israeli Soldiers Kill Youth as Violence Rages in West Bank

The Associated Press

**RAMALLAH, West Bank** — Despite U.S. appeals to end the violence, Palestinians stoned Israeli troops and motorists Wednesday in the most widespread West Bank clashes in months, and a Palestinian teenager was killed by Israeli Army gunfire.

Heavily armored soldiers in riot gear also fired rubber-coated steel pellets and tear gas in all, 87 Palestinians were injured Wednesday by rubber bullets and three by live rounds. Six Israelis, including two soldiers and two riot policemen, were hurt by stones.

The death of Jihad Iyad, 17, who was shot in the chest with a live bullet, came just four days before the start of President Bill Clinton's visit to Israel and the Palestinian areas, and was likely to trigger new violence.

A 21-year-old Palestinian university student, Nasr Erekat, who was critically wounded by Israeli fire on Monday, died Wednesday after being disconnected from life support. Mr. Erekat, a cousin of the chief Palestinian peace negotiator, Saeb Erekat, was to be buried Thursday.

Clashes erupted Wednesday on the outskirts of most West Bank towns, with rioters pressing for the release of Palestinian prisoners held by Israel and marking the 11th anniversary of their uprising against Israeli occupation.

### Court Martial for Israeli Soldier

The army decided Wednesday to court-martial an Israeli soldier who was beaten by a Palestinian mob. The Associated Press reported from Jerusalem.

Corporal Asaf Myara, 19, will be charged with not carrying a loaded weapon and leaving his base without permission. The beating, captured by TV cameras, shocked the country and drew the peace process.

But the army will not bring charges against the young soldier for not firing his M-16 rifle on his attackers, who smashed the windows of the car he was traveling in, dragged him out and struck him repeatedly in the head with chunks of concrete.

The attack took place last week in the West Bank town of Ramallah. In response, Prime Minister Benjamin Netanyahu suspended the Israeli troop withdrawal in the West Bank.

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Corporal Myara told investigators that he was unable to act because he was incapacitated by one of the first rocks striking his head.

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The army said it would discipline Corporal Myara's commanding officer.

### BRIEFLY

#### Israel Court Revises Army Exemptions

**JERUSALEM** — In a landmark decision touching a deep divide between strictly religious and secular Israelis, the Israeli Supreme Court ruled Wednesday that a long-standing exemption of rigorously Orthodox Jewish yeshiva students from army service was illegal and must be regulated by Parliament.

The exemption from compulsory military service of about 31,000 yeshiva students has angered secular Israelis, who have accused the strictly Orthodox community of shirking a duty borne by the rest of Israeli society.

(NYT)

#### Protesters Target Canadian Leader

**VANCOUVER, British Columbia** — Prime Minister Jean Chretien returned to Vancouver for the first time since a summit meeting last year — and was met by rowdy protesters that resulted in 10 arrests and several injuries.

Police officers used batons after some of about 700 protesters tried to break through a security cordon outside the hotel where Mr. Chretien was speaking Tuesday.

At the Asia-Pacific Economic Cooperation conference here in November 1997, students protesting the presence of then-President Suharto of Indonesia were arrested. Since then, some students have been pressing for an inquiry into whether Mr. Chretien's office ordered the suppression of protests.

(AP)

#### Iran to Test Missiles

**TEHRAN** — Iran will test-fire surface-to-surface missiles during the last stage of its naval war games, the official IRNA press agency said Wednesday.

The neighboring Gulf states have been informed of the tests, the agency said, but no date was given. The agency did not say which of its missiles would be fired. In September, Iran unveiled the Shahab-3 missile, which has a range of 1,300 kilometers (800 miles).

(AP)

### NATO: Albright to Seek New Arms-Reduction Talks in Moscow

Continued from Page 1

of the new company, had reportedly been under pressure from the family to increase the company's return. The other deputy chairman will be Sir David Barnes, the current Zeneca chief executive.

Mr. Barnes is also chairman of Asea Brown Boveri Ltd., the biggest electrical engineering company in the world, and has a reputation as a no-frills manager with a history of fusing corporate cultures — an issue that is particularly relevant to the drug business.

Only this year a planned merger of the two biggest pharmaceutical companies in Britain, Glaxo Wellcome PLC and SmithKline Beecham PLC fell apart.

Analysts were divided on the Astra-Zeneca deal, with some arguing that the sharp increases in both companies' shares Wednesday were driven by the possibility of rival bids for each. In London, Zeneca was up £1.61 at £27.11 (\$44.83) while Astra A shares moved up 19.5 kronor to 170.5 kronor (\$20.95).

### DEAL: Zeneca and Astra Agree to Join

Continued from Page 1

analysts say other European companies, with their stock denominated in euros, will find themselves pressed toward cross-border deals free of currency-exchange problems.

Additionally, the pharmaceutical industry is propelled by the escalating cost of research as patents on drugs expire. The patent, for instance, on Astra's Losartan ulcer and heartburn medication — the world's top-selling drug, which is marketed in the United States as Prilosec — expires in 2001.

"Astra has not felt strong enough to go it alone in this fierce competition," said Sigrid Leijonhuvud, economic commentator at the newspaper Svenska Dagbladet in Stockholm. "They need to put a lot of money into future research."

Astra and Zeneca said the new company would be called AstraZeneca and would have a market value of \$67 billion. It will be the fourth-largest pharmaceutical company in the world. The loss of 6,000 jobs represents about one-ninth of the total work force.

The deal followed recent agreements between Hoechst AG of Germany and Rhone-Poulenc SA of France to combine their drug and agrochemical businesses and a \$10.4 billion stock swap between two French drug companies, Sanofi and Synthelabo SA.

The AstraZeneca deal was the second-largest in Europe after the \$36.3 billion merger of Ciba-Geigy AG and Sandoz AG to create Novartis AG in 1996. Under the deal, Zeneca will offer 0.5045 of its shares for every Astra A or B share. Zeneca shareholders will control 53.5 percent of AstraZeneca. The corporate headquarters will be in London and the research headquarters in Sweden.

"Astra and Zeneca are a perfect fit," said Tom McKillop, the head of pharmaceutical business at Zeneca — which was spun off from Imperial Chemical Industries PLC in 1993 and has since increased its market value to seven times that of its one-time parent.

The new company will combine the manufacturers of two of the best-known medications — Astra's Prilosec ulcer drug and Zeneca's cancer treatment — and will, according to Mr. McKillop, achieve a huge leap in global sales and marketing power.

The two companies' revenue in 1997 totaled \$15.9 billion, \$11.5 billion in drug sales. The combined pretax profit was \$3.5 billion, and the combined research and development budget was \$1.9 billion, the third largest in the world.

Mr. McKillop was named chief executive of the combined company. Contrary to expectations that the chairman would be the current chairman of Astra, Haakon Mogen, the companies said that Percy Barnevik, one of the best-known and most ambitious magnates in Sweden, would fill that role.

Mr. Barnevik is chairman of Investor AB, the investment arm of the powerful Wallenberg family, which owns about 12 percent of Astra's stock. Mr. Mogen, who will be one of two deputy chairmen

### PINOCHET: British Home Secretary Allows Case to Proceed

Continued from Page 1

and each appeal could require a new decision by the Law Lords. After all appellate procedures are exhausted, Mr. Straw will again have the final say before Mr. Pinochet can be extradited.

Legal experts have estimated that the process could take more than a year.

In a five-page written reply to a parliamentary question detailing his reasoning, Mr. Straw said he could not sustain the charges of genocide and murder in the petition because they did not fit the legal definitions of extraditable crimes under Britain's Extradition Act of 1989.

He said, however, that he was able to match the accusations from the Spanish Judge Baltasar Garzon with equivalent British criminal charges of attempted murder, conspiracy to murder, torture, conspiracy to torture, hostage-taking, and conspiracy to take hostages.

Addressing the other considerations that he said he was legally bound to base his decision on, Mr. Straw said he did not find that General Pinochet was entitled to sovereign immunity, that the charges against him were not "of a political

character," that the length of time since the alleged offenses did not make them now "unjust," and that General Pinochet's health did not call into question his fitness to stand trial.

He said he had considered claims by the Chilean government that General Pinochet might stand trial in Chile but noted he did not "consider the possibility of a trial in Chile to be a factor which outweighs the U.K.'s obligations under the European Convention on Extratradition to extradite Senator Pinochet to Spain." In Chile, General Pinochet is Senator for Life, a title that among other things gives him immunity from prosecution there.

Spokesmen for Kingsley Napley, the law firm representing General Pinochet, declined to comment on whether it was considering an emergency application for High Court review of Mr. Straw's decision

## INTERNATIONAL

# Iraqis Block UN's Surprise Check

## Baghdad Aides Refuse Inspectors Entry to Ruling Party's Offices

By Barbara Crossette  
*New York Times Service*

**UNITED NATIONS, New York** — Barely two days into a crucial round of surprise arms inspections, the government of Saddam Hussein barred inspectors Wednesday from the Baghdad city headquarters of his ruling Ba'ath Socialist Party.

A senior Iraqi minister accused the inspectors of violating an agreement on access to certain places deemed sensitive by the Iraqis, usually buildings or compounds close to the leadership.

The minister, Amin Mohammed Rasheed, said at a news conference later that the inspectors had violated Iraq's "sovereignty" by trying to enter the party building without proper notice.

When a team arrived at the party office Wednesday, officials here and in Baghdad said, the inspectors were told they had to produce a list of exactly what they wanted to see.

They refused and were locked out for 45 minutes before leaving the site.

Another Iraqi official complained

that the inspectors had tried to enter the building "in a provocative way and with no notice." UN officials said that "no notice" is the essence of surprise inspections.

Richard Butler, the executive chairman of the UN Special Commission, known as Unscowm, which has been in charge of disarming Iraq since 1991, was restrained in reacting Wednesday, although he called the incident at the party office "very serious." He was not asked to report to the Security Council.

Mr. Butler is planning to make a weekly report on general progress or lack of it to the council Thursday, and he is expected then to elaborate on the Wednesday snafu.

In Washington, David Leavy, a spokesman for the National Security Council, said that the Clinton administration expected the Iraqis to cooperate across a full spectrum of activities if they want to have the sanctions imposed in 1990 reviewed by the Security Council — and to avoid another threat of military action.

Mr. Leavy said in an interview that the

United States wanted to hear from Mr. Butler before making a judgment on the level of Iraqi compliance. "But as the president said, if Iraq cannot live up to its obligations, if Butler determines that Unscowm can't do its job effectively, we have the forces in the region to respond."

Whenever cornered, Iraq has fallen back in recent years on complaints that the behavior of inspectors is an affront to the dignity and sovereignty of Iraq. Since June 1996, when Mr. Butler's predecessor, Rolf Ekeus, said he would take Iraq's "legitimate security concerns" into account when conducting inspections, Iraq has tried to protect a range of sites — and the list changes — with special treatment.

Mr. Ekeus wrote a directive to inspectors explaining how they should conduct investigations at sites the Iraqis called sensitive, but there was never an agreement to exclude any site from the inspectors' purview. There was agreement only to limit the number of inspectors and to allow a high-level Iraqi official to accompany them through the building to be inspected, which would



Richard Butler, the UN inspector

not be identified before the spot check.

Iraqis also make reference frequently to the agreement signed in February with the UN secretary-general, Kofi Annan, which they interpret as creating special categories of sites deserving special handling. That agreement allowed inspectors, accompanied by diplomats, to enter presidential properties, but only for perfunctory walk-throughs. Inspectors have not tried to re-enter those buildings.

## CROSSWORD

**ACROSS**

- 1 Thermometer part
- 2 Early touring car
- 3 choc; e.g.
- 4 More anxious
- 5 Beast native
- 6 Game played with 122 cards
- 7 company
- 8 Demand
- 9 Bret Harte character
- 10 Park it
- 11 Old flames

Solution to Puzzle of Dec. 9.

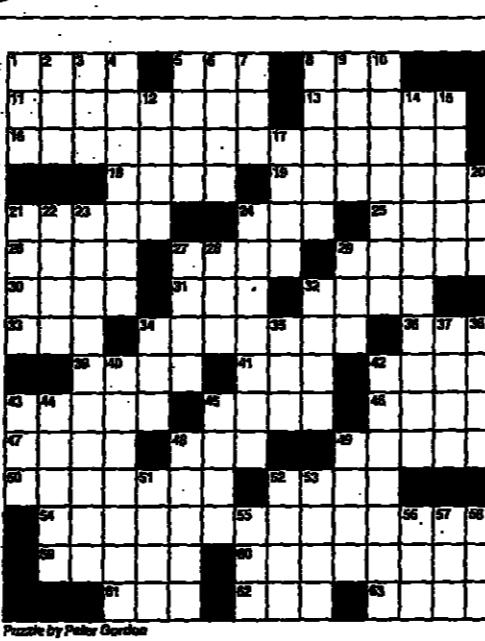
BAWL	SALEM	BRIM
ALIA	OLIVA	LAZE
SOUTHCAMAGNAVOX	GULLE	ENLACEAD
AMES	BICK	
FILC	IDLE	ELEVEN
DOA	SNORE	YALE
MARS	SATURN	VENUS
HOP	SPREE	EDT
DOLLAR	TERR	DES
IRAQ	DOSE	
GENERAL	UTICA	
LITTLE	TINY	SHDR
OGRE	HAMED	INON
TIER	TROTS	CAPO

1 Little —

- 2 Book before Nehemiah
- 3 Disconnected
- 4 Redress;
- 5 Quis;
- 6 Sheepskin holder;
- 7 Morgan of the comic page
- 8 —— sister
- 9 Start of a Supreme Court decision
- 10 Barbecuing block
- 11 Response to a battle's question
- 12 Preceding times
- 13 At the top of a face
- 14 Son of Seth

**DOWN**

- 1 Clean tables
- 2 Prefix with lateral
- 3 Certain Big Apple train, with "the"
- 4 Early rise
- 5 Not nobre
- 6 Cities of horror
- 7 Eyeball
- 8 "Home" symphonic composer
- 9 "ET" actor LaSalle
- 10 Prefix with lateral
- 11 Houstonian's nickname
- 12 "Date of Venus" writer
- 13 Clumsy fellow as Gar with a "Toolsie" role



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See our  
International  
Franchises  
every Wednesday  
in The Intermarket

## UNIVERSAL DECLARATION OF HUMAN RIGHTS

Adopted and proclaimed by General Assembly resolution 217 A (III) of 10 December 1948

### PREAMBLE

Whereas recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world, Whereas disregard and contempt for human rights have resulted in barbarous acts which have outraged the conscience of mankind, and the advent of a world in which human beings shall enjoy freedom of speech and belief and freedom from fear and want has been proclaimed as the highest aspiration of the common people, Whereas it is essential, if man is not to be compelled to have recourse, as a last resort, to rebellion against tyranny and oppression, that human rights should be protected by the rule of law, Whereas it is essential to promote the development of friendly relations between nations, Whereas the peoples of the United Nations have in the Charter reaffirmed their faith in fundamental human rights, in the dignity and worth of the human person and in the equal rights of men and women and have determined to promote social progress and better standards of life in larger freedom, Whereas Member States have pledged themselves to achieve, in cooperation with the United Nations, the promotion of universal respect for and observance of human rights and fundamental freedoms, Whereas a common understanding of these rights and freedoms is of the greatest importance for the full realization of this pledge, Now, therefore, the General Assembly proclaims this Universal Declaration of Human Rights as a common standard of achievement for all peoples and all nations, to the end that every individual and every organ of society, keeping this Declaration constantly in mind, shall strive by teaching and education to promote respect for these rights and freedoms and by progressive measures, national and international, to secure their universal and effective recognition and observance, both among the peoples of Member States themselves and among the peoples of territories under their jurisdiction.

### ARTICLE 12

No one shall be subjected to arbitrary interference with his privacy, family, home or correspondence, nor to attacks upon his honour and reputation. Everyone has the right to protection of the law against such interference or attacks.

Everyone has the right to freedom of movement and residence within the borders of each State.

Everyone has the right to leave any country, including his own, and to return to his country.

Everyone has the right to freedom of peaceful assembly and association. No one may be compelled to belong to an association.

### ARTICLE 14

Everyone has the right to seek and to enjoy in other countries asylum from persecution.

This right may not be invoked in the case of prosecutions genuinely arising from non-political crimes or from acts contrary to the purposes and principles of the United Nations.

Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers.

### ARTICLE 15

Everyone has the right to a nationality.

No one shall be arbitrarily deprived of his nationality nor denied the right to change his nationality.

Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers.

### ARTICLE 16

Men and women of full age, without any limitation due to race, nationality or religion, have the right to marry and to found a family. They are entitled to equal rights as to marriage, during marriage and at its dissolution.

Marriage shall be entered into only with the free and full consent of the intending spouses.

The family is the natural and fundamental group unit of society and is entitled to protection by society and the State.

Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment. Everyone, without any discrimination, has the right to equal pay for equal work.

Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection. Everyone has the right to form and to join trade unions for the protection of his interests.

### ARTICLE 17

Everyone has the right to own property alone as well as in association with others.

No one shall be arbitrarily deprived of his property.

Everyone has the right to freedom of thought, conscience and religion; this right includes freedom to change his religion, or belief, and freedom, either alone or in community with others and in public or private, to manifest his religion or belief in teaching, practice, worship and observance.

### ARTICLE 18

No one shall be held guilty of any penal offence on account of any act or omission which did not constitute a penal offence, under national or international law, at the time when it was committed. Nor shall a heavier penalty be imposed than the one that was applicable at the time the penal offence was committed.

Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay.

## In a Shift, U.S. Will Press To Overthrow Saddam

By Barton Gellman  
*Washington Post Service*

olence with power and compromise with surrender, a source of uncertainty for those who would like to see a stable region in which to invest."

The United States has succeeded in an effort to contain Iraq after the Gulf War of 1991. Mr. Berger argued, but he raised doubts whether containment "by itself is sustainable over the long run." The policy is expensive, vulnerable to manipulation by Iraq, unpopular with allies and "we cannot tolerate it endlessly."

He straddled the central policy debate on whether to focus on a coup — as the Central Intelligence Agency has emphasized — or on an insurrection from outside, as congressional leaders now urge. The national security adviser promised backing for the outsiders, to help them "delegitimize Saddam," but he also dangled incentives aimed at appealing to potential rebels at the center of power in Baghdad.

"We would work to ease economic sanctions" against a new government and "work to relieve Iraq's massive economic debts," Mr. Berger said.

Many proponents of overthrow, according to Phoebe Marr, until recently one of the U.S. government's leading experts on Iraq, "have a strategy that emphasizes the periphery, basing the opposition among the Kurds in the north and the Shiites in the south."

"That's a flawed strategy," he said. "They are weak, they're fractured and they're not in power."

"We have to give the center more incentive, and that's exactly what I think Sandy Berger is doing."

### ■ UN Inspectors Rebuffed

A United Nations weapons inspection team turned back Wednesday after it was refused admission to an office of the ruling Ba'ath Party in Baghdad, state-run Iraqi radio said, according to The Associated Press.

It was the first time a UN team had been blocked from searching for banned weapons since Richard Butler, head of the UN Special Commission that oversees the inspectors, announced this week that "surprise" inspections would resume on Tuesday.

Iraqi radio said that a UN weapons team tried to get into a headquarters "in a provocative manner without previous announcement."

The broadcast, which quoted the official Iraqi press agency, INA, said the Ba'ath Party official in charge of the headquarters demanded that the head of the UN team give him a written declaration "on the banned items" the team was seeking.

"The team rejected this and withdrew," the agency said.

### ARTICLE 25

Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control. Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.

### ARTICLE 26

Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory. Technical and professional education shall be made generally available and higher education shall be equally accessible to all on the basis of merit.

Education shall be directed to the full development of the human personality and to the strengthening of respect for human rights and fundamental freedoms. It shall promote understanding, tolerance and friendship among all nations, racial or religious groups, and shall further the activities of the United Nations for the maintenance of peace.

Parents have a prior right to choose the kind of education that shall be given to their children.

### ARTICLE 27

Everyone has the right freely to participate in the cultural life of the community, to enjoy the arts and to share in scientific advancement and its benefits.

Everyone has the right to protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author.

### ARTICLE 28

Everyone is entitled to a social and international order in which the rights and freedoms set forth in this Declaration can be fully realized.

### ARTICLE 29

Everyone has duties to the community in which alone the free and full development of his personality is possible.

In the exercise of his rights and freedoms, everyone shall be subject only to such limitations as are determined by law solely for the purpose of securing due recognition and respect for the rights and freedoms of others and of meeting the just requirements of morality, public order and the general welfare in a democratic society.

These rights and freedoms may in no case be exercised contrary to the purposes and principles of the United Nations.

### ARTICLE 30

Nothing in this Declaration may be interpreted as implying for any State, group or person any right to engage in any activity or to perform any act aimed at the destruction of any of the rights and freedoms set forth herein.

## EDITORIALS/OPIION

**Herald Tribune**  
 INTERNATIONAL  
 PUBLISHED WITH THE NEW YORK TIMES AND THE WASHINGTON POST
**NATO Looks Ahead**

Keeping up on the maintenance of NATO, America's premier international alliance, is a perennial task of U.S. diplomacy. The last time out, the issue was enlarging the alliance by tucking in some of the European states liberated by the end of the Cold War. Enlargement is not over yet, but the Clinton administration is calling for a new "strategic concept" to freshen NATO's purpose and coherence as its 50th birthday rolls around in April.

In the heroic Cold War days, NATO deliberations always started out with firm public statements of anti-Soviet unity and resolve. Then the diplomats moved behind closed doors to cope with the inevitable tensions arising from the varying size, power, location and leadership role of the members. This time the Soviet threat has disappeared, but the familiar Atlantic tensions are still in play. It is no crisis but it is going to take work to make a new strategic concept worth the effort of producing it.

As always, the United States has larger ideas for NATO than do its European members. They want stra-

tegic protection so they can go about their daily business. The United States, uniquely a global power, would draw its allies into deeper cooperation on new security and political problems. The extras cover defense of democracies against weapons of mass destruction, terrorism and local conflicts, the engagement of Russia without letting Russia bind NATO decisions, and the provision of an adequately funded, advanced and relevant defense, including missile defense.

The NATO way of handling internal differences has always involved a certain amount of wordplay, as with the current American call for a geographical ambit that is neither global nor "artificially limited." But the NATO way has also involved straight talk and hard bargaining of the sort that produced its incomplete but breakthrough out-of-NATO area deployments in Bosnia and Kosovo. However imperfect, these are examples of the openness to change that alone will keep NATO an effective and efficient guardian of American interests in Europe.

—THE WASHINGTON POST.

**What Does Clinton Want?**

If President Bill Clinton wants an impeachment vote in the House of Representatives and a possible trial in the Senate, he has the House Judiciary Committee exactly where he wants it. If, however, he would like to be less passive about his future, he has to change the direction and content of the committee's deliberations. In practical terms, that means that he must free himself and his defenders from the paralyzing fiction that he did not lie under oath.

It is unclear, of course, whether Mr. Clinton wants to avoid an impeachment showdown in Congress. He may be so addicted to chaos that he can only feel comfortable in a storm. Or he may simply be imprisoned by lawyers who tell him that he can cling to office and defeat any criminal indictment if he will just stick to his story.

But if the White House and Congress want to respond to the public desire for a censure deal, the hearings on Tuesday were not a total washout. For the most part, the Democratic case was well presented.

Only a gratuitously patronizing presentation by Sean Wilentz, a Princeton historian, marred the Democratic experts' argument that Mr. Clinton's misconduct did not meet the constitutional tests for impeachment.

The White House lawyer, Gregory Craig, adopted the conciliatory tone demanded by House Republicans. He said the president had "personally instructed" him to avoid legalisms and admit that Mr. Clinton was blameworthy, evasive and immoral, and had "misled his wife and family, his friends and colleagues and our nation." But Mr. Craig could only squirm and backpedal when Republicans pressed him to explain his insistence

that the president had not violated his sworn oath to tell the truth, the whole truth and nothing but the truth.

Mr. Craig's presentation showed why the White House has to resort to lawyering when the president is not leading. Many Republicans are motivated by political blood lust. A smaller but potentially decisive number are looking for a way to let Mr. Clinton off the perjury hook if he will admit that he lied under oath. Neither faction is willing to accept presidential assertions that defy reason and the factual record.

Representative Charles Schumer, the New York Democrat, is wrong, on politics and principle, to ridicule Republican demands for fuller statements of contrition. He and the White House should listen to Representative Lindsey Graham's sobering statement that "because this is not Watergate," impeachment could be avoided if Mr. Clinton would "reconcile himself to the law" with an admission of lying.

What Mr. Graham, a Republican, is saying is simply that Mr. Clinton needs to find a way out of the box he has built for himself. But the Republicans who demand a statement of culpability as well as one of remorse have to be ready to respond if the president moves. Any deal on censure has to protect him from prosecution in the courts on the evidence known at this time.

Not much progress was made on Tuesday toward such a settlement. The White House's new 184-page report is designed to continue the stalemate. Yet the Judiciary Committee debate was dignified and productive, and although both sides remain in fixed positions, nothing happened that would preclude a settlement if, against all present indications, a leader should step forward.

—THE NEW YORK TIMES

**Yes to Instant Replay**

Even the most die-hard New York Jets fan knows that the team's come-from-behind victory over the Seattle Seahawks on Sunday was outright robbery — a gift not from the deity, as the Jets' coach, Bill Parcells, would have it, but from a linesman whose eyes or mind must have wandered. Vinny Testaverde clearly came up short when he tried a quarterback sneak in the final seconds, but an official signaled a touchdown, even though video replays showed that the ball never crossed the goal line. Seattle's hopes of making the playoffs were shattered, and the Jets' hopes of winning the division remained intact.

This fiasco came after a botched call the week before that allowed the New England Patriots to beat the Buffalo Bills, thanks to a pass that was ruled complete even though video replays showed that the receiver was out of bounds. The Patriots went on to win after another highly questionable call, knocking the Bills out of a first-place tie and keeping the Pats in playoff contention. Such season-turning mistakes are ample reason for the National Football League to reinstate instant replay to confirm or overturn questionable calls.

Some critics of instant replay feel that the number of bad calls is too small to warrant concern, or that human error is part of the game, or that subjective

judgment will still be required to evaluate the videotapes, or that taking time out to review videotapes interrupts the flow of the game. Never mind that commercials interrupt the flow more often.

Instant replay is no panacea. The tape can be inconclusive, and its evaluators can make mistakes. But videotapes can make some calls definitively and can provide an additional angle of vision. When technology can prevent a game- or season-turning injustice, to refuse to use it is unreasonable.

—THE NEW YORK TIMES.

**Other Comment****Censure Is the Solution**

Lawyers, historians and partisans can argue from now into the next century about the implications of Bill Clinton's behavior and its effect on how Americans view the presidency. But as despicable, dishonest and stupid as his behavior has been, his actions fall short of being what could be reasonably interpreted as high crimes and misdemeanors. He has brought shame and disgrace on his office, and for that Congress ought to reproach him in the strongest terms. Congress can do so only if Republican leaders allow such condemnation as an option.

—Los Angeles Times.

**Ideology in Economics Needs to Be Recognized**

By William Pfaff

FRANKFURT — The Asian economic crisis, together with the damage wrought by the IMF and the U.S. Treasury in the guise of remedy, is forcing policy re-examination at some of the important international economic institutions, and even what can be called an examination of conscience.

James Wolfensohn, president of the World Bank, said in October that agencies such as the International Monetary Fund must change their policies so that "mathematics" does not "dominate humanity."

He said that "if we do not have greater equity and social justice, there will be no political stability, and without political stability no amount of money put together in financial packages will give us financial stability."

This was not a challenge to the dominant economic paradigm, but it was an admission of grave mistakes by those who make policy for the international economy.

The OECD in Paris, center for analysis and policy recommendations for the industrial nations, is also re-appraising the assumptions which lie behind mainstream economic and trade policies. A citadel of globalization orthodoxy in the past, it is now conducting a series of conferences in which questions are raised about the nature of modern economic development.

Are we in a "new economy," as

many have argued, in which the old rules no longer apply? Has an unprecedented "long boom" begun, to continue into the new century, producing growth of net benefit to the entire international community? Or is it possible that this kind of sustained and dynamic growth is not desirable?

The OECD's future-planning group is considering not only whether the long boom exists, and whether, if it does exist, is it environmentally sustainable, but the radical question of whether it is good for humanity.

Is it what people really want, given the social disruption and human costs of this pace of growth? Globalized growth undermines existing values and disrupts societies, distributing its rewards only selectively.

"Inequality within and between nations has, from a number of perspectives, increased ... No wonder some see the dynamic past a precedent to be avoided in the future." That comes from the introduction to an OECD conference in Frankfurt last week.

Needless to say, the economists, academics, bankers and officials invited to such a debate are not going to condemn either growth or globalization. Their professional formation and interests lie in problem-solving. They wish to re-

form the current system to do away with its negative consequences. They cannot imagine its abandonment.

They also are interested in "objective" analysis, not in political and ethical argument. Yet they are often unaware of the extent to which they are prisoners of ideology, which they accept as objective discourse. This limits the scope of their analysis.

Their ideology is that of market efficiency, the ideology of the Invisible Hand. In the West in the 1970s and 1980s this ideology replaced the then prevailing ideology of economic planning and government intervention, which for the sake of symmetry we can call the ideology of the Visible Hand.

Ideologues put to societies the questions that the ideology can answer. What remains is what its believers would describe as exogenous factors — questions for which the ideology is not responsible.

Take the ideology of the Visible Hand. There can be no doubt that government intervention produced great progressive reforms in industrial society. It was responsible for the postwar West European social market system and the welfare state, for Franklin Roosevelt's New Deal in the United States, and for Lyndon Johnson's Great Society attack on American poverty and exclusion.

The cost of state intervention was

high taxes. The ideology tended to inhibit enterprise and innovation. It did not, itself, produce inflation. (Global inflation in the 1970s followed from U.S. budget policy during the Vietnam War and the subsequent float of the dollar.) Nonetheless the interventionist ideology came to be identified with inflation as well as with taxes.

The ideology of the Invisible Hand said that individuals and the market, not government, should solve social problems. Free markets would create growth for all. Again, there were great successes. The lucky countries live with those successes today.

The unlucky countries, now in crisis, are condemned by the ideology for "crony capitalism" and other maladies of market immaturity. Their problems, like the indications of continued social distress in the advanced countries, fall outside the paradigm. The ideology is not responsible.

The international market economy we have today is an ideological choice. It is not a product of historical inevitability or objective scientific thought. Thus it is a welcome development that the OECD and the World Bank acknowledge that the choice industrial society has made needs to be weighed against other choices that were not made.

International Herald Tribune.  
Los Angeles Times Syndicate.

**Teaming Up to Make Human Rights a Universal Fact**

By Ramesh Thakur

TOKYO — Fifty years ago,

I was conscious of the atrocities committed by the Nazis while the world looked silently away. The United Nations adopted the Universal Declaration of Human Rights. It is the embodiment and the proclamation of the human rights norm.

Covenants in 1966 added force and specificity, affirming both civil-political and social-economic-cultural rights, without privileging either set. Together with the declaration, they mapped out the international human rights agenda, establishing the benchmark for state conduct, inspired provisions in many national laws and international conventions, and provided a beacon of hope to many whose rights had been snuffed out by brutal regimes.

A right is a claim, an entitlement that may either be conferred or denied. A human right, owed to every person simply as a human being, is inherently universal. Held only by human beings, but equally by all, it does not flow from any office, rank or relationship.

The idea of universal rights is denied by some who insist that moral standards are always culture-specific. If value relativism were to be accepted literally, then no autocrat — Hitler, Stalin, Idi Amin, Pol Pot — could be criticized by outsiders for any action.

Relativism is often the first refuge of repressive governments. The false dichotomy between development and human rights is usually a smoke screen for corruption and cronyism.

Relativism requires an acknowledgement that each culture has its own moral system. Government behavior is still open to evaluation by the moral code of its own society. Internal moral standards can comply with international conventions. But because moral precepts vary from culture to culture does not mean that different peoples do not hold some values in common.

Few if any moral systems proscribe the act of killing absolutely under all circumstances. At different times, in different societies, war, capital punishment or abortion may or may not be morally permissible.

Yet for every society, murder is always wrong. All societies require retribution to be proportionate to the wrong done. All prize children, the link between succeeding generations of human civilization; every culture abhors their abuse.

The doctrine of national security has been especially cor-

sive of human rights. It is used frequently by governments, charged with the responsibility to protect citizens, to assault them instead. Under military rule, the instrument of protection from without becomes the means of attack from within.

An argument sometimes invoked for a policy of "See nothing, hear nothing, do nothing"

is that an activist concern would worsen the plight of victims. Prisoners of conscience beg to disagree. It is important to them to know that they have not been forgotten. Lack of open criticism is grist to the propaganda mill of repressive regimes.

The United Nations — an organization of, by and for member states — has been impartial and successful in a standard-setting role; selectively successful in monitoring abuses, and almost feeble in enforcement. Governments usually subordinate considerations of

UN effectiveness to the principle of noninterference. The modesty of UN achievement should not blind us to its reality. The universal declaration embodies the moral code, political consensus and legal synthesis of human rights.

The world has grown vastly more complex in the 50 years since. But the simplicity of the declaration's language belies the passion of conviction underpinning it. Its elegance has been the font of inspiration down the decades. Its provisions comprise the vocabulary of complaint.

Activists and nongovernmental organizations use the declaration as the concrete point of reference against which to judge state conduct. The covariants require the submission of periodic reports by signatory countries, and so entail the creation of long-term national infrastructures for the protection

and promotion of human rights.

United Nations efforts are greatly helped by nongovernmental organizations and other elements of civil society. NGOs work to protect victims and contribute to the development and promotion of social commitment and to the enactment of laws reflecting the more enlightened human rights culture.

Between them, the United Nations and nongovernmental organizations have achieved many successes. National laws and international instruments have been improved, many political prisoners have been freed and some victims of abuse have been compensated. The United Nations has helped also by creating the post of high commissioner for human rights.

The most recent advances on international human rights are the progressive incorporation of wartime behavior and policy within the prohibitionary provisions of humanitarian law.

Last year's Ottawa treaty ban-

ning anti-personnel land mines subordinated military calculations to humanitarian concerns about a weapon that cannot distinguish a soldier from a child. This year the world community established the first International Criminal Court. The U.S. absence from both shows the extent to which human rights have moved ahead of their strongest advocate in the past.

Both examples illustrate the rise of nongovernmental organizations as actors with real influence on global issues that arouse public passions. Recognizing this, skilful governments engage civil society, and work in partnership with the organizations and the United Nations.

The transition from the barbaric of atrocities to the culture of human rights requires no less.

The writer, vice rector of the United Nations University in Tokyo, contributed this personal comment to the International Herald Tribune.

SINGAPORE — Because the

Universal Declaration of Human Rights was formulated against the background of the unspeakable horrors that Europeans, especially Jews, suffered during the World War II, the driving inspiration behind it was to protect the individual against the state. In the past 50 years, the declaration has given birth to a large family of international human rights law, institutions, procedures and norms.

To commemorate the 50th anniversary of the declaration, the Asia-Europe Foundation and the German weekly newspaper Die Zeit recently co-organized a colloquium in Hamburg. It brought together 40 Asian and European statesmen, scholars and activists in the field of human rights.

We all agreed that the declaration has helped to make our world more humane. There was, however, disagreement between some Asians and Europeans over two issues.

Granted that human rights are universal in character, but given the great diversities which exist in the real world, should we agree that "different places should be allowed to progress at different paces" toward the achievement of the universal standards?

There was also disagreement on whether, in judging the hu-

man rights situation of a country, for example, China, we should take into account its history and context. Put simply, should China be judged by the standards of the contemporary West, or by the dramatic progress that it has made since the beginning of the Deng era?

Many Asian and European participants agreed that the record of the past 50 years contains at least three flaws.

One, we are all guilty of double standards. We tend to victimize states in which we have little or no national interest and which are not in a position to retaliate against us. There is an inescapable tension faced by all governments in reconciling commitment to principle with the interests of the state.

Two, the development of the corpus of international human rights law has been driven by a dominant West. A case in point is the current effort by Europe to impose its opposition to capital punishment on the rest of the world as a new universal norm.

Three, because of its ignorance of the conditions in the Third World, the good intentions of the West sometimes do more harm than good.

In October, I co-chaired a meeting on labor relations in The Hague. A European nongovernmental organization confessed that it had succeeded in closing down a factory in Bangladesh which had employed children. Later it found to its horror that because of the poverty of the families, some of the girls had been forced into prostitution.

To wipe out child labor we therefore need a positive agenda of poverty alleviation as well as an agenda of targeting the evil people who exploit children.

At the Hamburg meeting, former Chancellor Helmut Schmidt and former prime minister of Luxembourg, Gaston Thorn, and the Netherlands, Andreas van Agt, were given an opportunity to put forward a draft Declaration of Human Responsibilities. Mr. Schmidt is honorary chairman of a club of elder statesmen established in 1983 by the late Prime Minister Takeo Fukuda of Japan.

Called the InterAction Council, the club has among its members such ex-heads of government as Jimmy Carter of the United States, James Callaghan of Britain, Valéry Giscard d'Estaing of France, Malcolm Fraser of Australia, Pierre Trudeau of Canada, Kiichi

Miyazawa of Japan and Lee Kuan Yew of Singapore. The council worked for 10 years until 1997 to draft its declaration, which is not intended to derogate from but to complement the Universal Declaration of Human Rights. Nonetheless, it has aroused much suspicion and opposition in the Western human rights community.

What is the inspiration behind the draft Declaration of Human Responsibilities? Mr. Schmidt explained that the draft was inspired by two ideas.

The first is that for the last 50 years the West had put too much emphasis on the rights of the individual and too little

## OPINION/LETTERS

*A Republican's Wish  
For Some Forgiveness*

By Amo Houghton

**WASHINGTON** — I am a bit old for this sort of thing, but if I were to be asked for a Christmas list this year, my top wish would be that the Monica Lewinsky affair could be erased from the 1998 calendar.

That, of course, is not to be. The issue is with us. We members of the House of Representatives will make a stab at reaching a "decision" on impeachment by year's end.

If I were granted a second wish, it would be that we stick to the facts and not political fantasies as we work to resolve something that has become a tumor in our society. No one is comfortable here in Washington these days. We feel sullied and sidetracked, our loyalties stretched to the breaking point.

"Don't fight the problem, decide it," Secretary of State George C. Marshall used to say. It can become oddly enjoyable raking over the details, lamenting the moral lapses. It helps sidestep the undarned thinking required to decide tough issues. But decide we must.

And in a larger sense the

main issue is how to heal, rather than further divide, the nation.

Far wiser heads than mine have devoted considerable thought to the legal and ethical ramifications of impeachment. But all eyes will probably be on the members of the House next week when the issue is likely to go to a vote. God willing, I will be there. I intend to vote against impeachment.

This may seem a bit premature, since the Judiciary Committee has yet to send an article of impeachment to the entire House. But the prosecution has presented its case and given us the facts.

Of course there was conduct unbecoming, and I deplore it.

If a plain manager in the company I used to work for engaged in such conduct, we would have disciplined him immediately. Maybe even dismissed him. But we would not have burned him at the stake.

Of course morals and decency and the laws we live by are all important. But can anyone argue that these "treats" are made stronger if we dismiss someone from office instead of issuing a strong rebuke?

THE PRESIDENT WISHES TO ANNOUNCE THAT AT LAST HE HAS DECIDED TO TAKE THESE PROCEEDINGS SERIOUSLY.



DANZIGER  
Los Angeles Times Syndicate

What we are facing is a practical, preordained outcome. Since there are insufficient votes to impeach in the Senate, President Bill Clinton will not be convicted. We may wish it were otherwise. It is not.

Furthermore, this case should not be compared to judgments in the military or other walks of life. Forty-three million Americans, knowing full well the history of similar charges against the president, voted Mr. Clinton into office — not once, but twice. I say this as someone who went

down to the wire supporting George Bush and Bob Dole. For 218 people in the House — the number needed to send a bill to the Senate — to consider overturning that verdict strikes me as a bit presumptuous. For me, at least, an action qualifies as a "high crime" only if it is directed against the state, not inflicted on oneself.

It has often been said that when the only tool you own is a hammer, sooner or later everything begins to look like a nail. We should search for other tools in our tool chest.

I would like to make a

plea to the House Rules Committee to allow another option. Why not recognize our limited field of action and at the very least end this sad chapter in our history with a strong statement of rebuke rather than nothing at all?

Oh, by the way, it is almost Christmas time. Anyone for a touch of forgiveness?

The writer is a Republican representative from New York and former chairman of Corning Inc. He contributed this comment to The New York Times.

## LETTERS TO THE EDITOR

## A Mission in North Korea

Regarding "Stop Appeasing Pyongyang and Give It a Wake-Up Call" (Opinion, Dec. 4) by Ralph A. Cossa:

Mr. Cossa trips too quickly over some facts related to our work in North Korea in recovering the remains of American servicemen.

My office has led the U.S. government negotiations on remains recovery operations with the North Koreans since January 1995. Following the 18 formal negotiations, technical meetings and field operations, one thing is clear: Our efforts to separate this work from all other issues with North Korea have paid dividends. Though this is difficult at times, we have preserved the humanitarian nature of our mission.

Although we have stated that progress on this issue contributes to the overall development of a relationship

with North Korea, we steadfastly resist being tied to talks on missiles and nuclear facilities and to food aid. This separation of issues has allowed our work in North Korea to continue virtually uninterrupted for three years in spite of other crises that have arisen.

Contrary to Mr. Cossa's assertion, we have never compensated the North Koreans as a result of crisis. Our compensation formulas are straightforward. If we contract with North Korea for fuel, we pay for it. If we require the service of a technical specialist, we pay. If we were conducting similar operations in the middle of Kansas, we would compensate in the same manner.

We have achieved a clear level of success in our efforts. In three years, we conducted nine field operations in North Korea, a country with which we are technically still at war. We have recovered remains believed to be those of more than

25 U.S. soldiers. In 1998, we conducted five operations — the same level of activity we now enjoy in Vietnam, where it took us 10 years to develop that pace.

To the families of those missing in action in the Korean War and to the veterans, our commitment is to continue this work, no matter how long it takes.

ROBERT L. JONES

Washington

The writer is deputy assistant secretary of defense for POW/Missing Personnel Affairs.

## Rochambeau, Not Lafayette

Regarding "U.S., France and Britain: Tangle of Friendship and Suspicion" (Dec. 7):

This otherwise excellent article has one common error: It attributes French military assistance during the American

Revolution as being under the aegis of the Marquis de Lafayette. In fact, the commanding general of the French forces fighting for the Americans, resulting in the allied victory at Yorktown on Oct. 19, 1781, was the Count de Rochambeau.

General John Pershing, on landing in France in 1917 during World War I at the head of the American Expeditionary Force, should have said, "Rochambeau, we are here."

WILLIAM GREENWAY

Paris

Letters intended for publication should be addressed "Letters to the Editor" and contain the writer's signature, name and full address. Letters should be brief and are subject to editing. We cannot be responsible for the return of unsolicited manuscripts.

## When the Box Office Reflects America's Dumbing Down

By Barbara McCutchan

**N**EW YORK — In the span of a generation, the most successful, or top grossing, movies of the year have gone from films like "Midnight Cowboy" and "The Godfather" to "Liar, Liar" and "Men in Black." Has the public taste sunk so low as to raise any hue and cry about the abysmal quality of American popular culture?

Hollywood has always promulgated American images and spread its distinct view of American society throughout

## MEANWHILE

the world. Movies exert the power they do because, to quote D. W. Griffith: "The motion picture is boundless in its scope and endless in its possibilities. The world is its stage, and time without end its limitations."

Movies intended for mass-market consumption have evolved over the generations: post-World War II movie audiences became more sophisticated than they had been in the past and were no longer content with simplistic adventures, idealistic romances and outmoded good-guys-versus-bad-guys tales.

The revelations of Auschwitz and Nagasaki signaled the beginning of the end of the isolated idealism of an earlier Hollywood. The war sobered Americans and gave them a broader view of the world.

Unfortunately, the complexity of character, the intricacy of plot and the nuances of relationships that were ubiquitous in the most popular and successful films 25 or 30 years ago are extraordinarily rare in the current crop.

Both the "Godfather" movies were among the top grossing films of those years. Francis Ford Coppola's first "Godfather" was not made for a select art-house constituency, yet it is a brilliant study of ruthlessness and kindness, murder and seamanship, violence and loyalty.

In the current entertainment climate, it is the rare movie producer or director who regards the audience with the same respect that Mr. Coppola and others of his ilk accorded the audiences of a generation ago. In the top grossing films in the United States of the past several years — "The Lost World: Jurassic Park," "My Best Friend's Wedding," "Face/Off," "Batman and Robin," "George of the Jungle," "Independence Day" — there is remarkably little impetus to think about complex issues of relationships, morality and other existential topics.

John Schlesinger's "Midnight Cowboy" was the third-highest grossing movie of 1969 as well as that year's Academy Award winner for best picture.

and best director. It unflinchingly portrays an aspect of the isolation and emptiness of contemporary urban life. Yet for all the sordidness in this story of a male hustler, there is caring and pathos.

The darkening mood of the '60s, especially among young Americans, and an angry, anti-establishment view may explain the popularity of that era's thoughtful films. Traditional values were mocked, free expression was demanded and youth identified with the anti-hero at odds with a social and political system deemed corrupt and repressive. This search for deeper meaning may have been reflected in movies that celebrated outcasts and misfits.

In that decade of racial upheaval, assassinations and a counterculture of dissent, the moviegoing audience was satisfied only by films exploring the subtleties of character, personal choice and ethical scrutiny: "Becket," "A Man for All Seasons," "Bonnie and Clyde," "Romeo and Juliet," "The Lion in Winter" and "They Shoot Horses, Don't They?"

In today's popular culture, a void is revealed by the endless parade of comic-strip characters, superheroes, car chases, explosions, witless comedies and hackneyed romances that is currently the norm. America's most popular form of entertainment, which sets a standard around the globe, has changed from an artistic medium to a special-effects contest.

Movies will always be made for discerning audiences who think seriously about a film's theme, story or performance. One such film is Atom Egoyan's "The Sweet Hereafter" (1997), which tells the wrenching story of the effect on a small town of a school bus accident that kills 14 children. Grieving parents and survivors, and the town's secrets, are portrayed uncompromisingly.

Yet, despite much critical praise, and Mr. Egoyan's nomination for Academy Awards for writing and directing the film, its gross receipts in the United States have by no means made it a huge financial success.

While in recent years movies such as "Schindler's List," "The English Patient," "Lone Star" and "Shine" have not reached the financial peak of, say, "Terminator 2: Judgment Day," that they achieved the success they did may offer a glimmer of hope for those of us who are despairing over the dumbing down of America.

The writer, a program associate at the Council on Foreign Relations, contributed this comment to the International Herald Tribune.

## INTER ACTION COUNCIL

## Hails the 50th Anniversary of the Universal Declaration of Human Rights

Since the adoption of the Universal Declaration of Human Rights on 10 December, 1948 by the United Nations, much progress has been made in advancing human rights. But there is still a great deal more to be done.

The InterAction Council, composed of former heads of State and heads of Government from countries around the world, has put forward for international debate a proposal for a Declaration of Human Responsibilities. This is an ethical appeal, an attempt to establish a standard that can be supported by all people.

The proposed Universal Declaration of Human Responsibilities reinforces and strengthens the Universal Declaration of Human Rights. As stated in the Preamble:

"We renew and reinforce commitments already proclaimed in the Universal Declaration of Human Rights: namely, the full acceptance of the dignity of all people; their inalienable freedom and equality, and their solidarity with one another."

The InterAction Council Members

Helmut Schmidt (Honorary Chairman)  
Former Chancellor of the Federal Republic of Germany

Miguel de la Madrid Hurtado  
Former President of Mexico

Kenneth Kaunda  
Former President of Zambia

Shin Hyon Hwak  
Former Prime Minister of the Republic of Korea

Malcolm Fraser (Chairman)  
Former Prime Minister of Australia

Vigdís Finnbogadóttir  
Former President of Iceland

Lee Kuan Yew  
Former Prime Minister of Singapore

Kalevi Sorsa  
Former Prime Minister of Finland

Andries van Agt  
Former Prime Minister of the Netherlands

Kurt Füger  
Former President of Switzerland

Kiichi Miyazawa  
Former Prime Minister of Japan

Pierre Elliott Trudeau  
Former Prime Minister of Canada

Anand Panyarachun  
Former Prime Minister of Thailand

Valéry Giscard d'Estaing  
Former President of France

Olusegun Obasanjo  
Former President of Nigeria

Oscar Arias Sanchez  
Former President of Costa Rica

Felipe González Márquez  
Former Prime Minister of Spain

Shimon Peres  
Former Prime Minister of Israel

Lord Callaghan of Cardiff  
Former Prime Minister of the United Kingdom

Mikhail S. Gorbachev  
Former Chairman of the Supreme Soviet and Former President of the Union of Soviet Socialist Republics

George Vassiliou  
Former President of Cyprus

Jimmy Carter  
Former President of the United States

# It is time to talk about human responsibilities

Abdelaziz Al-Qarashī  
A.T. Ariyanathne  
Jack Austin  
Leslie Brown  
Julia Chang  
André Chouinard  
John B. Cobb Jr.  
Benedicto de Bernardo  
Takako Dai  
Amritai Senjha

Hassan Hanafi  
Huizing Ho  
Yiwei Jin  
Henry A. Kissinger  
Cardinal Franz Koenig  
Teddy Kollek  
Peter Landesman  
Lester Langford  
Lee Seung-Yun  
Chwanhee Lee Kwang-Jung

Ron Lewis  
Liu Xiao-feng  
Jonathan Magone  
Terri McLean  
Robert S. McNamara  
Lord Yehudi Menuhin  
Robert Muller  
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Konrad Raiser  
Richard Rorty  
Jonathan Sacks  
Seijuro Shiozawa  
L.M. Singhvi  
René Samuel Sirat  
Sir Sigmund Sternberg  
Majorie Hewitt Stachowiak  
Seiken Sugiyama  
Paul Volcker

Carl Friedrich v. Weizsäcker  
Richard v. Weizsäcker  
We Xueqian  
Alexander Yakovlev  
Mahmoud Zalzouk

Numerous other individuals and institutions have supported the proposed Declaration

The InterAction Council, founded in 1983 by the late Takeo Fukuda, invites you to read the proposed Universal Declaration of Human Responsibilities on our website: <http://www.asiawide.or.jp/fac>

Or please request the Secretariat  
(3-18-13-708 Roppongi, Minato-ku, Tokyo 106-0032 Japan  
Tel: 813-3505-4527 Fax: 813-3589-3922 Email: [intact@asiawide.or.jp](mailto:intact@asiawide.or.jp))

The Declaration is available in: Arabic, Chinese, English, Finnish, French, German, Greek, Hindi, Indonesian (Malay), Japanese, Korean, Polish, Portuguese, Russian, Spanish, Thai and Turkish.



## TribTech

# Say Ahhhh! Breakthroughs in Painless Dentistry

By Holcomb B. Noble  
New York Times Service

**N**EW YORK — Much of the dread in the dreaded trip to the dentist is being removed. New treatments are bringing patients freedom from drilling, freedom from anesthesia and freedom from pain — and they appear to be, in their initial stages, safer, more accurate and faster than traditional methods.

Nearly four decades of scientific and engineering research have produced laser beams that can cut efficiently and painlessly into the hardest substance in the body — teeth — to remove decay and prepare cavities for filling.

Computerized X-rays are greatly reducing the levels of radiation to which patients are being exposed. And computers are producing larger, brighter, easier-to-read images of a patient's cavities, displayed not on film but on a 17-inch computer screen at the dentist's elbow.

The laser technology "must be

carefully watched for possible adverse side effects that may arise in the future," Dr. Kharana said.

A race to harness the new technology had been on since 1964, when Dr. Leo Goldman, director of the dermatology department at the University of Cincinnati, began experimenting with lasers — powerful, highly focused beams of light.

The experiment involved placing various combinations of chemical elements or compounds — holmium, neodymium, yttrium and lithium among them — in crystalline cylinders and shooting rays of ordinary light at them.

The hope was to activate or excite

the electrons in the chemicals to create light with just the right wavelength and energy to cut tooth enamel without overheating, which could damage the nerve of the tooth and destroy the fiber-optic cable needed to deliver the laser beam. But the right chemical combinations proved elusive.

The experiment involved placing

treatment of adults and later of children. Biolase Technology of San Clemente, California, which developed a slightly different technology, got the go-ahead in October for laser work on some types of adult cavities. Dr. Wayne Wozniak of the American Dental Association's council on scientific affairs agreed that the laser was an important new tool, but he also warned that it was possible for lasers to damage a tooth and cause pain if they penetrate too deeply and strike the nerve.

The computer-enhanced X-ray technology was developed in 1994 in a cellar in the New York home of David Schick, now president and chief executive of Schick Technologies. Since then it has been refined so that the image of the inside of a patient's mouth can be called up on a computer screen. The image works on both desktop and laptop computers — handy for the dentist's office with more than one treatment room.

*Luisito Rondon/The New York Times*  
A laser beam cuts into a human tooth, the hardest substance in the body. The technology has been approved in the United States for some types of dental work.

## Cleartype: New Technology or Hype?

By John Markoff  
New York Times Service

**S**AN FRANCISCO — One evening last month at an impromptu gathering of reporters at the Comdex computer trade show, Bill Gates, chairman of Microsoft Corp., enthusiastically described a breakthrough technology for improving the readability of text on the color displays used on laptop computers.

The technique, which he said would be added to Microsoft's Windows operating system next year, is known as Cleartype, and it makes text on a portable computer almost as readable as a newspaper or a book. Mr. Gates asserted. Such an advance could be the key to helping to popularize electronic books and making on-line publications legible enough to read directly from a computer screen for long periods, he added.

No one disputes that Cleartype could mean a bonanza for the computer, Internet and publishing industries. But the portrayal of the technology as an innovation has set off an intense debate among computer researchers. The company says Cleartype is the result of work done by Bill Hill, a Microsoft researcher who joined Mr. Gates on stage for the Las Vegas introduction of the technology last month. Mr. Hill, the company says, discovered a fundamental new approach to rendering type by inventing algorithms that draw upon the basic physics of human vision.

But soon after the introduction, the Internet was buzzing with claims that Cleartype was similar to approaches

developed many years earlier by researchers at Apple Computer Inc., International Business Machines Corp., Xerox Corp. and elsewhere.

"The techniques we've developed are significantly different than the claims for prior art of which we're aware," said Dick Brass, the vice president for technology development who is leading Microsoft's electronic-book development.

John Seeley Brown, director of Xerox's Palo Alto Research Center, is one of a group of researchers who do not see it that way. "They have found a minor twist," Mr. Brown said, "but the idea of how the eye perceives color based on the display of subpixels is where we started this game." Microsoft has refused to disclose details about Cleartype, saying it did not want to compromise the patent protection it is seeking.

During his impromptu chat with reporters, though, Mr. Gates divulged that Mr. Hill and other Microsoft researchers had been able to take advantage of the fact that on a liquid crystal display, or LCD, each picture element, or pixel, consists of three separate subpixels, of different colors. When all three are switched on simultaneously, the viewer is tricked into seeing a single white pixel because the individual subpixels are too tiny for the eye to resolve.

This means that LCDs should be able to render type fonts at as much as three times the actual screen resolution, making them far sharper. The stair-step edges of lines on a typical computer screen give fonts a jagged appearance, so smoothing type has

long been a quest of software designers. Most settle for one of a variety of techniques known as anti-aliasing or hinting. The most common technique is to paint pixels along a character's edge in shades of gray, which makes the borders appear less jagged.

Microsoft says its approach is "an unprecedented innovation in font display technology." Other industry researchers acknowledge that the Cleartype technology will make screens sharper, but insist that the underlying concepts have been known for decades.

"The thing that I objected to is they made such a big deal out of it," said Steve Gibson, a software developer who worked on the screen technology of the Apple II computer in the 1980s. "I'm afraid they are going to try to claim it as their own."

The most direct challenge to Microsoft's claim of originality comes from Dpix Inc., a Xerox subsidiary spun off from the Palo Alto Research Center. Dpix makes a color flat-panel display using techniques that seem to closely parallel Cleartype technology. In the Dpix display, each pixel is composed of four subpixels — two green and two combining red and blue — to increase the readability of the fonts beyond the resolution of the screen, which is already twice that of standard flat panels.

"We address the green pixel separately with different gray-scale data, which gives you a much finer resolution to the font and a much finer curve," said Malcolm Thompson, president of Dpix. Mr. Thompson said his company had not sought a



Steve Gibson objects to Microsoft's claim of innovation.

software patent because such techniques had been used for many years in military flat-panel displays for enhancing photographic imaging.

Microsoft was not aware of the Xerox research, Mr. Brass said.

Microsoft's application for patent protection for its font technology is one reason the announcement has stirred controversy. Software was not routinely patented until the mid-to-late 1980s.

"We built the whole industry around there not being patents," said Dan Bricklin, a developer who invented the spreadsheet. "The old-timers don't even think of patenting ideas new-timers think they invented. It's a real mess."

### BRIEFLY

**WINDOWS Y2K?**: Microsoft Corp. says its Windows 98 operating system had minor year 2000 problems and that the company was making an update available on the Internet and on CD-ROMs that fixes the glitch.

The so-called Y2K bug can cause computers to read the year 2000 as 1900 because most older computers were programmed to read a two-digit year date. That bug could cause machines to either crash or transmit bad information. Microsoft said dates in 2000 could be displayed incorrectly in "rare scenarios," although the problem poses no threat of data loss.

The fix is available at: [windowsupdate.microsoft.com](http://windowsupdate.microsoft.com) (Bloomberg)

**E-MAIL ME IN MY CAR:** The first personal computer for the car went on sale in the United States last week.

The AutoPC, made by Clarion Corp., combines e-mail, entertain-

ment and navigation and will be available on the West Coast initially, the company said. The price for the basic system will be \$1,299. Options such as global positioning for navigation will be priced separately.

Ford Motor Co.'s Visteon unit said it expects to unveil a car PC by the middle of next year.

Visteon's system will have even more features, a spokeswoman, Cheryl Eberwein, said. She declined to give a price. Visteon plans to make its device available to all automakers. (Bloomberg)

**SUN SETS UP IN INDIA:** Sun Microsystems Inc. is setting up a software development facility in the southern Indian city of Bangalore.

The India Engineering Center will focus on network computing technology and the Java programming language, said Geoffrey Baehr, the site director. Mr. Baehr did not give details of the investment in the center or the number of people it would employ. (Reuters)

### ALT /Commentary

## Push' Didn't Get the Shove

By Victoria Shannon  
International Herald Tribune

**P**ARIS — Whatever happened to "push technology," the Internet delivery system that two years ago all the digerati said would take over our personal-computer desktops?

The World Wide Web was originally based on a "pull" concept, though no one called it that. If you wanted information, you went out, hunted around until you found it, then pulled it to your computer. Push technology tries to save time and help you find information in a universe growing so fast as to be unsearchable.

You specify what information you want, and the material is waiting when you sign on to the Internet.

When I saw last week that PointCast Inc., the pioneer service for information "pushed" to your desktop, was discontinuing support for the Macintosh, I suspected that this was a nail in the coffin of push. So I went exploring.

It turns out that push is alive and well after all and that PointCast's move was related to its unwillingness to spend money upgrading its Mac software (interesting, that, as Apple Computer Inc. has risen from the almost dead).

But push never did take over the Internet, either. The difference from two years ago is in terminology and visibility: The buzzwords "push technology" are just not cool enough to be bandied about anymore in this lightning-fast industry, and a lot of the pushing is done behind the scenes now, in big corporate offices.

PointCast has about 400,000 users, who can subscribe to scores of content sources — or "channels" — for customized delivery of news and information. Its "channels" consist of such diverse sources as The Jerusalem Post and CCH Monitor: The Newsletter of Managed Care.

BackWeb Technologies, another big purveyor of channels, is doing much of its business with businesses — companies that want a special kind of automatic updating for employees.

Compaq Computer Corp., for instance, uses BackWeb technology in its Compaq Service Connection to automatically push out software updates and service and support information to users of its Presario PCs.

In a related way, Intuit Inc. has built another push technology, the Castanet system of Marimba Inc., into Quicken 99, the personal financial management software.

This way, Castanet handles the background

grades that Intuit makes available.

An oil-field services division of Schlumberger Technology Corp. uses BackWeb to get data to remote locations. An article in PC Week magazine explained the attraction of BackWeb: Posting more than a million pages of data on a Web site does not ensure that the intended viewers will find it, while simply sending e-mail presumes that the sender of the information has a good idea who should get it. "Push finds the middle ground," the division's information-technology manager said.

Other mutations that no one calls push anymore are the many services available that e-mail you their news and updates. The biggest example is Netscape Communications Corp.'s InBox Direct. You subscribe to certain sources, just as you do with PointCast's channels, and either plain text or Web pages with all their graphics come to your e-mailbox.

Slightly different but still examples of push are the customizable news pages that are showing up on the Web, such as the ones you can put together at [www.cnn.com](http://www.cnn.com) or [my.yahoo.com](http://my.yahoo.com). Still, not all permutations of push have survived. Remember After Dark Online, from the screen-saver people? That was based on the same channel-pushing theory, and it has vanished.

Personally, I've never had much taste for push. After the first few weeks of playing with PointCast and some of the other services, I never kept up with it. They all seemed to require too much on-line time, too much computer energy or too much tinkering with settings and subscriptions, so the current manifestations of push — subtle, behind the scenes and targeted — work well for me.

What is perhaps the ultimate "push technology" is still on the horizon. At the Massachusetts Institute of Technology Media Lab and at Xerox Corp., researchers and technologists are developing "electronic paper." In the near future, we could be walking around with documents that have new information pushed to us wirelessly. Maybe old technologies never die; they just grow up and get called something cooler.

*Victoria Shannon edits TribTech and can be e-mailed at: tribtech@ih.com.*

### SITES

PointCast is still available for Windows at [www.pointcast.com](http://www.pointcast.com), and the BackWeb viewer for Mac and Windows is at [www.backweb.com](http://www.backweb.com).

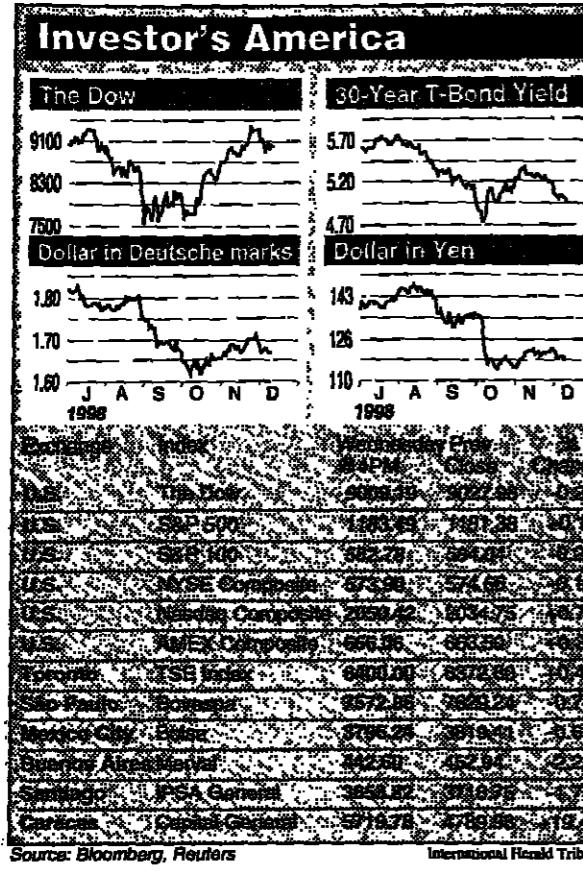


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## THE AMERICAS



## Yen Moves Up On Comments By Miyazawa

Compiled by Our Staff From Dispatches

**NEW YORK** — The dollar fell against the yen Wednesday after Finance Minister Kiichi Miyazawa of Japan suggested the United States would like a weaker dollar.

The United States "feels comfortable" with the dollar "at around 110 yen or 120 yen," Mr. Miyazawa told a parliamentary committee, according to the Kyodo news agency.

He also said that the widening U.S. trade deficit could intensify

**FOREIGN EXCHANGE**

pressure on Japan and spur support for a stronger yen.

Treasury Secretary Robert Rubin has repeatedly said a strong dollar is in the U.S. interest but has not mentioned any target levels or ranges.

Chris Wright, international economist at Chase Securities, said, "Given that the U.S. intervened this year to weaken the dollar against the yen, there may be some lingering suspicion that the U.S. may take action again." But he said that given the resilience of the U.S. economy, further intervention to support the yen was unlikely.

The dollar fell to 117.820 yen in 4 P.M. trading from 119.035 yen Tuesday. It edged up against some European currencies, rising to 1.6594 Deutsche marks from 1.6667 DM and to 5.5975 French francs from 5.5899 francs but falling to 1.3585 Swiss francs from 1.3669 francs.

The pound slipped to \$1.6552 from \$1.6580, pressured by growing speculation the Bank of England will cut interest rates at its meeting Thursday.

(Bridge News, Bloomberg)

**Very briefly:**

• J.P. Morgan & Co. expects its fourth-quarter profit to be about half as much as analysts have forecast, citing "weak results" from stock trading. Its results will include a \$100-million pretax charge for previously announced cost-cutting measures, including eliminating about 5 percent of its 16,200-person staff by the end of the year.

• Seagram Co. expects its filmed-entertainment division to report a negative cash flow of \$65 million for its second quarter, which ends Dec. 31, because of recent box-office disappointments including "Babe: Pig in the City." Cash flow totaled \$98 million in the year-earlier quarter.

• Merck & Co., the world's biggest drugmaker, will add about 700 sales representatives in the United States next year, a 17.5 percent expansion in its current sales force of about 4,000.

• Dentus Inc., the world's largest advertising agency, said it was considering buying a minority stake in the Chicago-based ad agency Leo Burnett Co. Dentus could buy as much as 20 percent of Burnett, people familiar with the negotiations said.

• QAD Inc., a software maker, said it planned to cut nearly 200 jobs, or 15 percent of its 1,300-member global work force, in a restructuring that would result in more than \$20 million in annual cost savings. The company said it would take a charge in the fourth quarter related to the restructuring.

• Great Atlantic & Pacific Tea Co., an operator of supermarket chains, plans to close underperforming stores in the United States and Canada, sell some others and open 175 to 200 "superstores" as part of a plan to improve profit. The company, widely known as A&P, said it would close or sell 127 of its 907 stores.

• Citigroup Inc. is considering selling its Phibro Inc. commodity unit as the world's largest financial-services company retreats from trading for its own account after losses in the third quarter. Phibro is one of the biggest commodity traders, particularly in oil.

(Bloomberg, Reuters, AP)

**Very briefly:**

Compiled by Our Staff From Dispatches

**CARACAS** — Venezuela's stock market surged 19 percent Wednesday, adding to a 22 percent gain Tuesday, amid growing optimism that President-elect Hugo Chavez will take steps to fix a stagnant economy.

The Caracas Stock Exchange's main index rose 29.80 points to close at 5,719.78, making a two-day gain of 46 percent.

"There's growing relief in the markets that Chavez came in and made all the right conciliatory moves," said Rafael la Fuente, a Latin American economist with Paribas Corp. in New York.

The bolivar also rose, with the dollar falling to \$70.00 bolivars from \$74.50 bolivars Tuesday.

Before the election Sunday, investors and

## Rival Planemakers Split Huge TWA Order

Compiled by Our Staff From Dispatches

**ST. LOUIS** — Trans World Airlines Inc. said Wednesday it planned to add 125 planes to its fleet over the next decade with options on another 125, its largest order ever.

TWA split the order for short-range jets, estimated at \$3.9 billion, between Boeing Co. and the European consortium Airbus Industrie.

The deal could stretch the resources of the carrier, which has not made an annual profit since 1988. TWA would not discuss financing terms, except to say it would lease the planes.

TWA ordered 75 narrow-body Airbus jets, including the new A318, handing the European planemaker a victory over Boeing on its home turf. It also ordered 50 of Boeing's 717-200 short-haul jets with options for 50 more, show-

ing that competition among the world's two biggest aircraft makers remains as stiff as ever.

The order was TWA's first for Airbus aircraft and included 75 options on top of the 75 firm orders. Firm orders are for 50 A318s and 25 jets of the A320 family.

The order comes as TWA tries to modernize one of the industry's oldest fleets, beating it can't cut maintenance costs and attract higher-paying business travelers.

It was the first major order for the 106-seat Boeing 717 in three years, ensuring that the plane stays in production. The 717 orders are critical to the 10,000-worker McDonnell Douglas commercial jet plant in Long Beach, California. Boeing last week said it would cut 48,000 jobs, or 20 percent of its work force.

**Airbus Gets Austrian Airlines Order**

Austrian Airlines said Wednesday it was buying seven jets from Airbus as part of a 25 billion schilling (\$2.13 billion) fleet upgrade over five years, Reuters reported from Vienna.

The airline, which also reported a 76 percent rise in nine-month pretax profit, to a record 1.29 billion schillings, said it would take delivery of six Airbus A320s and one A321 worth 3.3 billion schillings between March 2001 and June 2003.

Austrian Airlines said that with these orders, "the group's fleet of 90 will then have an average age of just 5.8 years and count among the youngest worldwide."

(AP, Bloomberg, Reuters)

## Internet Shares Power Nasdaq to a New High

Compiled by Our Staff From Dispatches

**NEW YORK** — Stocks finished mixed Wednesday, with blue-chips falling but the technology-heavy Nasdaq composite index rising to a record high.

Worries about the profit potential of multinational companies pulled the Dow Jones industrial average down 18.79 points to 9,009.19. Investors instead favored technology stocks, raising the Nasdaq composite index 15.67 points to a record 2,050.42.

The Standard & Poor's 500 index ended 2.11 points higher at 1,183.49, and declining issues outnumbered advancing ones by a narrow margin on the New York Stock Exchange.

Money poured into all manner of stocks that had anything to do with the Internet. The most actively traded stock was Xoom.com, an unprofitable provider of Internet shopping services. The company sold 4

million shares at 14, and they soared to 34 7/16. "This is an incredible reception for an Internet stock, considering it has no earnings," said Ben Holmes, an analyst at ipoPros in Boulder, Colorado.

Amazon.com, an on-line retailer, rose 12 3/16 to 2164, and America

well in the U.S. market, "but internationally they are not doing as well as expected, and when you average the two you get disappointing earnings."

Chevron rose 3 3/8 to 86 1/16 after an Internet site that tracks Dutch stocks said the U.S. oil company may be a takeover target of Royal Dutch/Shell Group. Oil prices are at their lowest levels in 12 years.

The low oil prices, coupled with sliding prices of other commodities, helped lift Treasury bond prices.

"Inflationary expectations are collapsing as commodity prices go through the floor," said John McNeil at Sutherland Stockbrokers. Slow inflation means fixed-income bonds will hold more of their value.

The price of the benchmark 30-year Treasury bond rose 7/32 point to 104 5/32, taking the yield down to 4.98 percent from 5.01 percent Tuesday.

(Bloomberg, Reuters)

## Sony Names U.S. Chief

Bloomberg News

**NEW YORK** — Sony Corp. said Wednesday it had promoted Howard Stringer to chairman of its Sony Corp. of America unit as part of a restructuring of management at its U.S. businesses.

Sony also named Thomas Motola chairman of Sony Music Entertainment and John Calley chairman of Sony Pictures Entertainment. Both executives will report to Mr. Stringer, who will continue to be responsible for Sony's U.S. and Canadian electronics businesses.

Norio Ohga, chairman of the parent company, formerly held that position at the U.S. unit. New positions were created for Mr. Motola and Mr. Calley.

Sony has been trying to strengthen ties between the electronics and entertainment sides of its businesses, especially as digital technology changes the way the company produces and distributes its entertainment offerings. The promotion of Mr. Stringer from president and chief operating officer reflects the increasing importance of his role as a bridge between the technological and software areas of Sony's U.S. operations, said Nobuyuki Idei, president of Sony. Mr. Stringer will report to Mr. Idei.

## Caracas Stocks Surge Anew on Hope for Chavez

Compiled by Our Staff From Dispatches

politicians feared that Mr. Chavez would dissolve Congress and try to stall payment of some foreign debts. Since his landslide victory, Mr. Chavez has emphasized his willingness to work with foreign investors and the business community.

He said Wednesday that his economic team would present a debt restructuring plan to the International Monetary Fund on Thursday that was intended to ease the country's repayment schedule.

But the retired army officer insisted he had not changed his tune since winning the presidential vote.

"There has been no change of message," he said. "I haven't been saying anything different than during the campaign. What happened here is

a conjunction of factors. There's a new atmosphere, a bit of fresh air."

While sending out more market-friendly messages in recent days, Mr. Chavez has clearly not forgotten his military past. He said he wanted to see the military play a more active role in national development, although he insisted that this would not mean a "militarization of society but rather a civilization of the military."

Separately, Mr. Chavez said Venezuela would honor its existing pledges to cut oil output to try to prop up sagging prices. But he ruled out further output cuts. Oil prices are at the lowest levels in 12 years. In London, benchmark Brent crude fell to \$39.88 a barrel on Wednesday, down 13 cents.

(Bloomberg, Reuters)

The Trib Index									
		Indexes		Prices as of 4:00 P.M. New York time					
Jan. 1, 1998 = 100		Level		Change		% change		year to date	
Indexes		Vol.	H&P	Low	High	%	Chg.	Vol.	Chg.
World Index	197.00			+1.35	+0.68	+0.7%	+14.46		
Regional Indices									
Asia/Pacific	93.26			+1.74	+1.90	-2.92			
Europe	225.31			+1.95	+0.57	+16.72			
N. America	278.43			+0.61	+0.22	+28.91			
S. America	65.38			-0.70	-0.81	-44.08			
Industrial Indexes									
Capital goods	268.20			+1.52	+0.53	+39.52			
Consumer goods	243.05			+1.23	+0.51	+15.89			
Energy	199.04			+1.31	+0.65	+2.09			
Finance	135.26			+0.97	+0.72	+10.00			
Miscellaneous	184.26			-0.88	-0.48	+22.94			
Raw Materials	159.48			-1.19	-0.74	-4.54			
Service	208.62			+3.44	+1.63	+19.68			
Utilities	179.80			+1.51	+0.90	+7.75			

The International Herald Tribune World Stock Index tracks the U.S. dollar value of 200 internationally traded stocks from 25 countries.

Compiled by Bloomberg News

**AMEX**

### Wednesday's 3 P.M.

The 200 most traded stocks of the day.

The Associated Press

**Stocks** Sales High Low Last Chg. Chg.

AMC 491 194 174 174 -1.5 -1.5

AT&T 450 194 174 174 -1.5 -1.5

AT&T Corp 450 194 174 174 -1.5 -1.5

Bell South 450 194 174 174 -1.5 -1.5

BellSouth 450 194 174 174 -1.

## EUROPE

**France Taps Alcatel to Control Satellite-Making**

**By Joseph Fitchett**  
International Herald Tribune

**PARIS** — France fielded a world-class satellite manufacturer Wednesday with an announcement that Alcatel SA, along with Thomson-CSF, its defense subsidiary, would take control of all French activity in this sector, including Matra Marconi Space, a French-British joint venture.

This major corporate realignment emerged from overlapping mergers in the French defense industry, which is scrambling to keep up with U.S. consolidation and wider streamlining in Europe. Thomson and Alcatel, which already had taken over the satellite business of state-owned Aerospatiale, will acquire the new venture from Britain's GEC-Marconi and France's Matra; the price was not disclosed.

**Ciba Ends Merger Talks With Clariant**

**Basel**, Switzerland — Ciba Specialty Chemicals AG said Wednesday it had terminated talks on combining with Clariant AG, its Swiss rival, a deal that would have led to an \$8 billion share swap forming the world's biggest specialty-chemicals maker.

Ciba said its board of directors had voted against the merger after it decided that the financial, commercial, legal and regulatory risks were "so significant as to undermine" the future benefits of a union.

The companies said last month they planned to merge, with Clariant shareholders set to own 54 percent of the enlarged company. The company would have had annual sales of \$13.3 billion.

The breakdown of talks came as analysts were predicting a new round of mergers and acquisitions in the industry. This year, the Dutch chemical maker Akzo Nobel NV bought Courtaulds PLC of Britain, and Ciba bought Allied Colloids PLC, another British chemical company.

The new company, with a sales potential approaching 20 billion francs (\$3.58 billion) a year, will rank just behind the world's leading satellite builder, Hughes Electronics, a U.S. company that also has won contracts in conjunction with GEC-Marconi, the British defense electronics manufacturer — which now will have potentially competing ties with the United States and France.

Alcatel, already France's top high-technology company, has succeeded in less than a year in assembling a satellite business that can offer a powerful fit with the company's core activity of telecommunications.

A government statement implied that the new company would be France's prime provider of military satellites, a role that will bring prestige but not necessarily immediate profit for Alcatel — whose stock fell 22 francs to close at 717 on Wednesday, apparently because of concern about further costs as Alcatel finds its footing in a highly competitive market.

Alcatel's chief executive, Serge

Tchuruk, has succeeded in turning around Alcatel in recent years, but its stock plunged almost 50 percent one week this autumn when U.S. and other investment funds became alarmed about the company's exposure to Asia.

Basically, the deal announced Wednesday tidied up overlaps among leading French defense companies left by the government's decision in July to merge Aerospatiale and Dassault Aviation and pass control to Matra High Technology, a privately owned defense manufacturer run by Jean-Luc Lagardere.

Now, the Defense and Economics ministries said in a joint statement, France will have "a pole of defense and professional electronics involving Thomson-CSF and Alcatel and a pole of civil and military aviation built around Aerospatiale-Matra and Dassault Aviation," a three-way merger set last June by

the government.

Objections by Alcatel had held up

the process of privatization of

Aerospatiale in the new venture.

The deal Wednesday cleared the

way for the government to relinquish majority control of the last remaining state-owned defense giant in France.

"This puts an end to in-fighting in the French defense industry which greatly weakened it in the past," said Eric Cohen, an industrial analyst. But he warned that "the landscape is going to keep stirring," and apparently with an eye to imminent mergers across Europe, the French deal avoided monopolies.

For example, Thomson — and Alcatel — emerged with the prime role in Eurostar, a missile-making consortium including Alenia of Italy. Matra has its own missile business, Matra BAe Dynamics, a joint venture with British Aerospace. Aerospace can go back into the satellite business.

But Matra, chosen to be the lead

aeronautics contractor, had to drop

long-standing objections by

Aerospatiale, the previous French partner in Airbus, and let Thomson

take control of Sextant Avionics,

clearing the way for work with Boeing Co. of the United States.

**Poland Trims Its Key Rates To Aid Growth**

Bloomberg News

**WARSAW** — The central bank of Poland cut its key interest rates Wednesday, the fifth such reduction this year, in a bid to encourage corporate investment and keep the economy expanding at a rate of more than 5 percent a year.

The bank's Monetary Policy Council cut its 28-day intervention rate, used to adjust liquidity in the market, to 15.5 percent from 17 percent. It also lowered the discount rate, a reference rate, to 18.25 percent from 20 percent and the Lombard rate, at which banks can borrow overnight, to 20 percent from 22 percent.

The government earlier lowered its economic growth forecast for next year by one percentage point, mainly because declining demand from Russia was hurting Polish exports. Lower rates will lower companies' borrowing costs and increase investment after declines in sales to Russia have forced many of them to reduce earnings forecasts and cut staff.

Poland's WIG stock index was little changed for a second day Wednesday ahead of the rate cut.

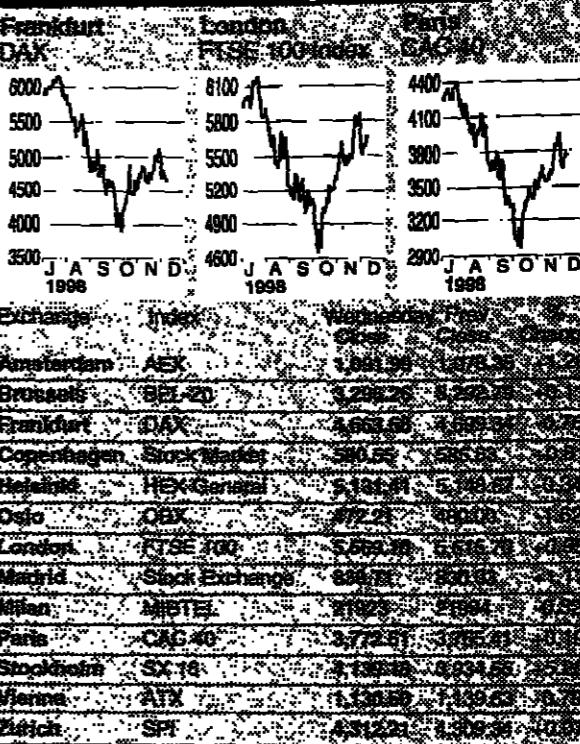
Several indicators had suggested that the central bank would lower rates, including the declining annual inflation rate and slower expansion of the money supply. The money supply expanded only 0.4 percent in October after growing 0.9 percent in September, while the annual inflation rate fell to a 16-year low of 9.9 percent in October.

**Greece Cuts Interest Rate**

The Bank of Greece, the country's central bank, chopped half a percentage point off its key interest rate Wednesday against a backdrop of falling inflation and lower rates across the European Union, Reuters reported.

The bank said it was cutting its rate for 14-day deposits to 12.25 percent from 12.75 percent. It also lowered its base rate for overnight funds to 11.6 percent from 11.9 percent and cut its Lombard rate to 15.5 percent from 16 percent.

National Bank, the largest Greek commercial bank, almost immediately reduced a series of loan and deposit rates. It slashed its working capital loan rate to 13.75 percent from 15.25 percent.

**Investor's Europe**

Source: Telekurs

International Herald Tribune

Source: Telekurs</p

NYSE

**Wednesday's 4 P.M. Close**  
The 2,400 most traded stocks of the day.  
Nationwide prices not reflecting late trades elsewhere  
The New York Stock Exchange

**Nationwide prices not reflecting late trades elsewhere**

THE ASSOCIATED PRESS.

	Stock	Div Yld	PE	52 Wk High	Low	Latest Chg
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**Continued on Page 17**

NASDAQ

**Wednesday's 4 P.M.**

The 1,000 most traded National Market securities  
in terms of dollar value, updated twice a year.  
*The Associated Press*

The Associated Press

The 1,000 most traded National Market securities  
in terms of dollar value—updated twice a year.  
The Associated Press.

NYSE

**Wednesday's 4 P.M. Close**  
*(Continued)*

**(Continued)**

(Continued)										
12 Month High	Low	Stock	Dil. Yld	PE	Mo.	Hg.	Lw.	Low	High	Chg.
176	159	MURKIN	1.03	5.3	6	466	177%	177%	177%	+1%
124	116	NALCO	.518	5.1	12	134	12%	12	12%	-1%
17	154	NATFL	.50	5.1	12	134	12%	12	12%	-1%
14	144	NASTRO	.83	5.3	12	117	15%	15%	15%	+1%
304	784	NEA	.23	5.3	12	126	13%	13	13%	+1%
276	1794	NEC	.24	5.3	12	779	25%	25%	25%	+1%
50	252	NEGE Es	1.23	4.7	12	324	30%	30%	30%	+1%
46	25	NEH Corp	.34	1.9	12	324	30%	30%	30%	+1%
84	234	NEI Co B	.10	1.3	12	104	3	28	28	-1%
414	2704	NEIGARD	.24	1.3	12	112	31%	31%	31%	+1%
424	1696	NEIMAN	.24	1.3	12	107	31%	31%	31%	+1%
309	1784	NEIPER	.18	1.3	12	101	31%	31%	31%	+1%
257	674	NEIREN	.10	1.3	12	271	15%	15%	15%	+1%
304	1184	NEIRIS	.05	1.3	12	271	15%	15%	15%	+1%
274	28	NEISER	1.57	22.2	12	12	79	5%	5%	-1%
204	554	NEISER-Fa	.05	1.3	12	450	11%	11%	11%	+1%
374	1584	NEISON	.10	1.3	12	172	35%	35%	35%	+1%
104	474	NEON	.10	1.3	12	172	35%	35%	35%	+1%
224	22	NEON	.15	4.9	12	251	25%	25%	25%	+1%
205	25	NEON-Ke	.10	1.3	12	251	25%	25%	25%	+1%
214	1744	NEON-Pr	.05	1.3	12	245	25%	25%	25%	+1%
454	236	NEON-S	.12	2.3	12	245	25%	25%	25%	+1%
174	474	NEON-S	.12	2.3	12	245	25%	25%	25%	+1%
405	26	NEON-H2	2.02	2.2	12	245	25%	25%	25%	+1%
414	254	NEON-S	.05	1.3	12	245	25%	25%	25%	+1%
504	254	NEON-S	.05	1.3	12	245	25%	25%	25%	+1%
274	2294	NEON-S	.05	1.3	12	245	25%	25%	25%	+1%
414	2594	NEON-X	.10	1.3	12	121	17%	17%	17%	+1%
104	574	NEON-X	.10	1.3	12	121	17%	17%	17%	+1%
854	574	NEON-X	.10	1.3	12	121	17%	17%	17%	+1%
74	214	NEON-X	.10	1.3	12	121	17%	17%	17%	+1%
50	1774	NEON-X	.10	1.3	12	121	17%	17%	17%	+1%
264	974	NEON-X	.10	1.3	12	121	17%	17%	17%	+1%
35	2174	NEON-X	.10	1.3	12	121	17%	17%	17%	+1%
504	28	NEON-X	.10	1.3	12	121	17%	17%	17%	+1%
2494	114	NEON-X	.10	1.3	12	121	17%	17%	17%	+1%
274	1074	NEYA	.10	1.3	12	121	17%	17%	17%	+1%
264	13	NEYA	.10	1.3	12	121	17%	17%	17%	+1%
224	124	NEYA	.10	1.3	12	121	17%	17%	17%	+1%
152	14	NEYA	.10	1.3	12	121	17%	17%	17%	+1%
254	244	NEYA	.10	1.3	12	121	17%	17%	17%	+1%
454	254	NEYA	.10	1.3	12	121	17%	17%	17%	+1%
P-E-R										
2474	1874	PECO	1.00	2.5	19	500	40%	40	40	+1%
264	254	PECO	0.42	2.5	20	76	25%	25%	25%	+1%
354	254	PEGEE CP	1.20	2.5	20	2264	22%	22	22	+1%
804	33	PEM Co	.10	1.3	12	520	32%	32%	32%	+1%
444	364	PEMC	.10	1.3	12	519	32%	32%	32%	+1%
204	764	PEM Re	.10	1.3	12	183	32%	32%	32%	+1%
764	454	PEPS	1.24	2.5	13	121	22%	22%	22%	+1%
124	254	PEPS	2.00	2.5	13	121	22%	22%	22%	+1%
24	254	PEPPERS	1.24	2.5	13	121	22%	22%	22%	+1%
274	1574	PEPPERS	1.24	2.5	13	121	22%	22%	22%	+1%
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## INTERNATIONAL INVESTING

# Value Stocks Are the Market's Diamonds in the Rough

Washington Post Service

**W**ASHINGTON These are dark days for lovers of value stocks. In droves, investors prefer growth — high-flying, pricey shares — to plodders that may be bargains.

Value has been outstripped by growth every year since 1994, and 1998 will be the worst yet. So far, growth is whipping value by 24 percentage points.

Now, Michael Price, one of the biggest stars in value investing, is moving off center stage. Is this a sign that value has been eclipsed permanently?

Mr. Price's move — stepping down as chief executive of his fund family, Mutual Series — raises another issue: Should Mr. Price's followers stick around? There are few reasons to sell a good fund, but a change at the top is one of them.

Still, as an owner of one of the funds, I haven't sold yet, but I'm keeping vigilant. I'm also convinced that value stocks will have their day, but loading down your portfolio with value is a mistake. Own a mix of value stocks and growth stocks.

Mr. Price, the value champion, began running mutual funds in 1975, at age of 24, when he joined Max Heine at Mutual Shares, which was started back in 1949. Eventually, Mr. Price was managing another five funds, each prefixed "Mutual": Beacon, Qualified and Discovery, which all carried portfolios similar to that of Shares, plus the smaller European and Financial Services. For each, the guiding principle was value.

In 1996, Mr. Price sold Mutual Series to Franklin Templeton, and in November, he officially relinquished the top job, remaining as chairman and leaving most of the

decision-making to the chief executive, Peter Langerman, 43; the chief investment officer, Robert Friedman, 39, and four lieutenants.

Mr. Price was a wizard, a bargain hunter who reveled both in finding companies that were flat on their backs and in forcing companies to raise value for shareholders by changing management or spinning off businesses. He invested heavily in bank stocks throughout the 1990s and scored a major coup when Chemical Banking Corp. and Chase Manhattan Corp. merged.

The funds performed brilliantly, beating the market by wide margins in 1993, 1994 and 1996 — and with 40 percent less risk.

But, despite assurances that Mr. Price would remain active, many shareholders worried that after he sold Mutual Series, the funds would falter. They did.

For example, Shares, Qualified and Beacon are all showing small losses for the year, while Beacon is up less than 1 percent, compared with a positive return of 22 percent for the Standard & Poor's 500-stock index, a good proxy for the market as a whole. All four of the funds

trailed the S&P badly in 1997. What went wrong? One word springs to mind: Sunbeam.

Mr. Price's technique was to invest heavily in companies that were hated by the market but, he believed, had strong potential. He scored big with the banks, with ITT Corp., and with Sears, Roebuck & Co., but with Sunbeam, the appliance maker, he struck out.

He had hoped that the firm, under Albert (Chainsaw Al) Dunlap, would make a comeback and, indeed, shares soared from \$13 in July 1996 to \$51 in March 1998. But they plummeted when the company registered big losses.

At the start of the year, Mutual Shares held about \$50 million worth of Sunbeam, its largest holding by far. Qualified, Discovery and Beacon were caught in the Sunbeam downdraft, too, and Mr. Friedman says the debacle cost the funds about 3 percentage points in losses.

But when I talked with Mr. Friedman in New York last week, his main explanation for the hard times at Mutual Series was that "this is a terrible value market."

It is.

First, he has revamped the funds, naming managers with clear responsibility for each. Second, he has cut their holdings from an unwieldy 300-plus stocks to about 200. Third, he has given them sharper definition.

The easiest way to identify a value stock is by checking its price-to-earnings ratio, or P/E, which is published in most newspaper stock tables and indicates how many dollars investors are willing to pay for each dollar of annual profit. The average P/E for the S&P, based on the earnings over the past 12 months, is now 30; value stocks are generally those with P/Es of 15 or lower.

But in this market, the hot growth stocks have simply gotten hotter. Dell Computer Corp., at a P/E of 65, has tripled this year; Microsoft Corp., at a P/E of 59, has doubled; Pfizer Inc., at a P/E of 60, has risen 53 percent.

Meanwhile, good value stocks languish. Caterpillar Inc. trades at a P/E of 11; AMR Corp., the parent of American Airlines Inc., at 9; Dow Chemical Co., at 14.

Mr. Friedman is not discouraged.

First, he has revamped the funds, naming managers with clear responsibility for each. Second, he has cut their holdings from an unwieldy 300-plus stocks to about 200. Third, he has given them sharper definition.

But when I talked with Mr. Friedman in New York last week, his main explanation for the hard times at Mutual Series was that "this is a terrible value market."

It is.

— JAMES K. GLASSMAN

## New Stock Package Has a High-Tech Focus

**WASHINGTON** — In August, I highlighted the Wired Index, a list of 40 stocks chosen by the hip-high-tech monthly Wired to serve as a bellwether for the new economy.

While weighted toward technology, the choices are well diversified by sector and geography — stocks such as America Online

Inc., Dell Computer Corp., Marconi International Inc., Nucor Corp., SmithKline Beecham PLC, Thermo-Electron Corp. and Wal-Mart Stores Inc.

Starting Tuesday, Guinness Flight Investment Management Ltd. plans to offer the stocks packaged as the no-load Guinness

Flight Wired Index Fund (telephone 1-800-915-6565 in the United States, or check out the Web site at [www.gfunds.com/wired](http://www.gfunds.com/wired)).

Minimum investments are \$2,500 for regular accounts, \$1,000 for individual retirement accounts and \$250 for gifts.

— JAMES K. GLASSMAN

## Very briefly:

• Individual investors pulled almost \$70 million from U.S. equity mutual funds in the week that ended Monday, according to a report by Trimbabs.com, a California-based research concern that tracks fund flows. In the two previous weeks, investors put net \$8.24 billion into the stock funds.

• Tenaga Nasional Bhd., the largest Malaysian electricity utility, plans to sell its stake in the Sultan Salchuddin Abdul Aziz power plant in Selangor state. Tenaga said this month it was selling its Tanjung Kling plant in Melaka, southeast of Kuala Lumpur, to Powertek Bhd. for 740 million ringgit (\$195 million). The sales are part of Tenaga's plan to focus on power transmission and distribution.

• Teva Pharmaceutical Industries Ltd., the biggest Israeli drugmaker, plans to sell a majority stake in its own-brand drug business, raising about \$100 million to finance development.

• Deutsche Bank AG plans to increase its sale of bonds that can be swapped for Allianz AG stock to 1.55 billion euros (\$1.81 billion) from 1.3 billion euros because of strong demand.

By Bloomberg

## Are you a Saxon deep down?

Back in the Middle Ages, the Saxons went out into the world. Today, things have changed and entrepreneurs from all over the globe are settling in Saxony. In the first half of 1998 alone, some 4,000 companies were formed here in eastern Germany. You don't have to wait for the next mass migration, though, to take advantage of the greenhouse climate for new businesses and established companies currently prevailing in Saxony. The Saxony Economic Development Corporation will be happy to supply you with all the information you need — free of charge. Simply phone +49/351/3199-10-00, fax +49/351/3199-10-99, or visit the Web site at [www.saxony.com](http://www.saxony.com)

## SAXONY !

James K. Glassman's On Investing column now appears in the IHT on Thursdays and Saturdays.

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112 MERRILL LYNN BANK, COUNTRY S.A.	113 MERRILL LYNN BANK, COUNTRY S.A.	114 MERRILL LYNN BANK, COUNTRY S.A.	115 MERRILL LYNN BANK, COUNTRY S.A.	116 MERRILL LYNN BANK, COUNTRY S.A.	117 MERRILL LYNN BANK, COUNTRY S.A.	118 MERRILL LYNN BANK, COUNTRY S.A.	119 MERRILL LYNN BANK, COUNTRY S.A.	120 MERRILL LYNN BANK, COUNTRY S.A.	121 MERRILL LYNN BANK, COUNTRY S.A.	122 MERRILL LYNN BANK, COUNTRY S.A.	123 MERRILL LYNN BANK, COUNTRY S.A.	124 MERRILL LYNN BANK, COUNTRY S.A.	125 MERRILL LYNN BANK, COUNTRY S.A.	126 MERRILL LYNN BANK, COUNTRY S.A.	127 MERRILL LYNN BANK, COUNTRY S.A.	128 MERRILL LYNN BANK, COUNTRY S.A.	129 MERRILL LYNN BANK, COUNTRY S.A.	130 MERRILL LYNN BANK, COUNTRY S.A.	131 MERRILL LYNN BANK, COUNTRY S.A.	132 MERRILL LYNN BANK, COUNTRY S.A.	133 MERRILL LYNN BANK, COUNTRY S.A.	134 MERRILL LYNN BANK, COUNTRY S.A.	135 MERRILL LYNN BANK, COUNTRY S.A.	136 MERRILL LYNN BANK, COUNTRY S.A.	137 MERRILL LYNN BANK, COUNTRY S.A.	138 MERRILL LYNN BANK, COUNTRY S.A.	139 MERRILL LYNN BANK, 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# Europe and the Euro

## Birth of a Currency and a Quest for Common Identity

### EU Searches For a Voice

By John Vinocur

**P**ARIS — Europe is embarking on the exceptionally difficult job of creating a unified, representative voice — first on monetary policy, then on foreign and security matters — that would reflect the power and potential of its single currency.

The idea goes to the heart of the unification of Europe. It encompasses the European Union's desire to become a cohesive world force, a equal with the United States and Asia's strongest countries not only through economic leverage, but in terms of a new capacity to act autonomously on a vast scale.

With the euro in place, the first six months of 1999 will provide vivid circumstances for testing the premise that Europe can move toward achieving a new level of integration, and with it, a willingness to accept responsibility and exercise power as one unit.

By July of next year, it will have become clearer how successfully the euro zone countries are able to function as one in the international councils where global monetary and economic policy are decided. By the same time,



The Euroclock in Frankfurt counting down to the start of the European common currency on Jan. 1, 1999.

markedly boosted the euro's ambitions to be regarded as the dollar's peer by designating a scaled-down team to represent the new currency's 11 participant countries at international meetings like those involving the G-7 finance ministers. But instead of limiting the delegation to Wim Duisenberg, the new European Central Bank president, and a single finance minister, the EU said it wanted to send the ECB's chief plus all the old national representatives (including the central bankers), plus in certain circumstances, the representative of a smaller country in the euro-11 group.

This contradiction isn't alone. There are major differences of policy, instinct, conviction and history that crisscross, knot and tangle in the monetary, foreign and security areas. Setting up processes and infrastructures so that Europe can act as a single world player hardly guarantees a consensus among countries whose national cohesiveness and self-esteem has often been more deeply linked to their differences than their similarities. (Think of Britain's willingness to thump Iraq at the side of the United States, or France's tendency to define its uniqueness through its distinctness from America).

In the area of monetary policy, the first indications of how Europe was going to funnel all its woodwind into a single note were not overwhelmingly positive. The Europeans could have

Beyond numbers and flags, Europe was going to have to figure out a way to reconcile variations in economic opinion between the ECB chief and the politicians accompanying him.

Oskar Lafontaine, the German finance minister, has said that in his ca-

pacity as euro-11 chairman he will be the political voice of Europe at the first G-7 meeting involving the euro as a functioning institution. That means that Europe's designated voice was not only a man who had publicly leaned on the independence of the ECB's forerunners in an attempt to bring down interest rates, but the author of a book whose views on controlling international markets and currency variations had little to do with those of Mr. Duisenberg or many of the other euro group finance ministers.

This lack of consensus on broad orientations was probably not enormously meaningful in daily terms for the euro, because when the issue is money, the pressure for pragmatic, unitary European approach is so strong as to limit the effects of theoretical debates. But with governments changing party allegiances, the corresponding alterations in economic ideology were likely to form a complicating backdrop — Mr. Lafontaine serves as an example — for the euro's desire to speak with one monetary voice.

In the context of advancing toward a single Europe, specific EU foreign and security policy have been traditionally considered less urgent concerns. For all the humiliation of not being able to deal with Bosnia without the dominant involvement of the United States, there is no sense Europe will fall apart without a common foreign policy projecting a unified view of the world beyond the EU's borders. And there is nothing like consensus on just what that foreign policy should reflect.

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Many Asian companies are adopting a wait-and-see approach before tapping the euro market. *Page 21.*

Most U.S. companies are ready for the euro, but some smaller ones are not. *Page 21.*

Valery Giscard d'Estaing, the former French president, retrace the steps to monetary union. *Page 22.*

"Asymmetric shocks," if big enough, could be a threat to the single currency. *Page 23.*

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The dollar faces its first real challenge as the top currency in the world. *Page 24.*

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Financial markets are likely to be substantially restructured. *Page 25.*

### A Cautious Optimism

By Alan Friedman

**R**OME — Just three weeks from now, the dream becomes reality. Eleven European nations will formally merge their currencies into one, the euro, and there is now every reason to believe that this epochal moment will enjoy at least a reasonable success.

Economists say that among the reasons to be cautiously optimistic there is last week's coordinated cut in interest rates to a level of 3 percent, the fact that government budget deficits in the euro zone countries are under control, and that inflation is at its lowest level in 40 years.

At the same time, the euro will be launched against the backdrop of the global financial crisis, slowing growth in Europe, and a continuing European jobs crisis that remains a turn-of-the-century social time bomb.

The political leaders who will shepherd the Continent into the era of monetary union, meanwhile, share a perspective on economic policy that differs greatly from the conservative and free market vision of former Chancellor Helmut Kohl.

Today's leaders in Germany, France and Italy believe in a more expansionary fiscal policy, in a more socially oriented Europe, and in taxation policies that worry businessmen in the euro-11 countries.

"There is definitely a new consensus to do something about the problems of growth and unemployment," notes Sharda Persaud, European economist at the London office of Paribas, "but what I worry about is the way politicians seem to want to throw money at the problem rather than undertaking key structural reforms, such as making labor markets more flexible."

Despite this concern among business and many economists, the arrival of a single currency that spans a market of 290 million people will still bring huge benefits, including savings for companies and consumers alike who will no longer have to face transaction costs and risks related to switching in and out of different national moneys.

The arrival of the euro will also mean that stock prices across much of the Continent will be denominated in a single currency, as will government borrowings, with great potential for a unified capital market that should contribute to growth and investment in the medium term.

What is more, says Ms. Persaud, "the new European Central Bank has shown . . .

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### Global Private Banking

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## Banks Brace for Final Scramble Dress Rehearsals Go Well, but Doubts Linger

By Tom Buerkle

**L**ONDON — For many bankers, brokers and back-office staff here and in other financial centers, this New Year's holiday is hardly an occasion for celebration.

An estimated 30,000 people in the City of London and tens of thousands more across Europe and around the world will be working throughout the holiday weekend to tackle the industry's biggest logistical challenge ever — making the transition to the euro.

Thousands of bonds must be redenominated from the 11 participating countries into euros, stock prices must be converted into euros, and millions of securities positions need to be converted and verified throughout the industry's global dairy chain of distribution, from the biggest European banks to small firms and custodians as far afield as the United States and Australia.

The good news is that after nearly two years of preparations and software changes, as well as numerous full-scale dress rehearsals over recent weekends, most major banks, securities firms, clearing and exchanges appear to be ready for the change.

The entire financial industry in Paris has conducted three simulated conversion weekends this fall, the biggest system-wide tests, and declared itself ready. Banks in Frankfurt report a similar state of preparedness. And even in London, which has the unenviable task of not participating in the euro but needing to be every bit as ready as the Continent because of the city's unrivaled financial clout, officials are confident of success.

"The fact that you identify risks doesn't mean they are likely to happen," Eddie George, the governor of the Bank of England, told a gathering of industry executives recently. "I would be pretty confident that there is nothing that is going to go seriously wrong."

But there are still nagging concerns. No matter how ready an individual bank is or how much it has run tests with counterparties, no test can simulate the complexity of real life, in which thousands of banks, brokers, exchanges, clearinghouses, depositories and custodians throughout the world are mutually dependent on each other.

"What was a European problem is going to be a global problem," said Jeremy Smith, head of euro preparations at Bankers Trust Corp. in London. The bank, which is the world's fifth-largest custodian holding \$2.3 trillion worth of securities for investors, will have about 2,000 people working worldwide over the conversion weekend, including nearly 700 in London.

Testing has alleviated most fears that a major bank or market would not complete its conversion in time to open for business on Monday, Jan. 4, causing a convulsion in financial markets. Even so, the European Central Bank in Frankfurt will be working over the weekend to monitor conversion efforts, and its governing council will be available to take any action that might be necessary.

"What will be needed to do, we will do," said Rosario Almeida, a spokeswoman for the bank.

More likely is an increase in background static when markets reopen on Jan. 4. Unmatched or failed trades are almost certain to increase because of mathematical or clerical errors in converting to euros, or mistakes in using some of the new conventions for calculating the values of euro securities. The key question is whether financial institutions can correct those errors quickly and prevent mistakes from snowballing and clogging up the markets.

"We're working on the basis that there is going to be some noise," said Malcolm Bryant, a senior executive at Moisan Stanley Dean Witter Inc. and head of the securities industry EMU group. "Either it is going to get better, or it is going to get worse. The problem is we don't have any experience of this at all. This is a unique event."

Consider the redenomination of more than 2,000 bonds, mostly government issues, into euros. The process involves a lot of number-crunching and verification to begin with, but to complicate matters the euro countries are employing no fewer than five different methods of redenomination. Most will follow Germany in redenominating investor holdings to the nearest euro cent, but France and the Netherlands will convert to the euro, with France rounding down and paying cash compensation for any fractional euro and the Dutch simply rounding up.

"The propensity for error increases," said Denis Peters, head of marketing and communications at Euroclear in Brussels.

**F**OR most financial institutions, the conversion will begin during the evening of Dec. 31 with their usual year-end processing, detailing all securities positions for earnings and tax purposes. Redenomination will start on Jan. 1, and statements will go out to clients on Jan. 2 for verification. Much of Sunday, Jan. 3, is reserved for reconciling any disputes or other contingencies.

Some issues will be resolved only after the markets reopen, such as whether currency dealers will quote the rate of one euro to the dollar and the British pound, or vice versa. The European Central Bank and the Bank of England have recommended the former, but officials acknowledge that dealers in London and New York, the two biggest currency trading centers, are used to quoting one dollar to 1.65 Deutsche marks. The ultimate conversion, Mr. George said, "has got to be market-driven."

When can people start to relax? Mr. Smith of Bankers Trust said the firm's conversion will only be completed on Jan. 5, processing using its new euro systems. Most investment banks believe it will take two to three weeks to gain real confidence in trading operations, and some departments like custody or private banking won't get their first test until they send out their first monthly statements in euros at the end of January.

**TOM BUERKLE** is on the staff of the International Herald Tribune.

## EUROPE AND THE EURO / A SPECIAL REPORT

## Asians Remain Cautious About Tapping the Euro Market

By Michael Richardson

**S**INGAPORE — In alerting Asia to the opportunities and challenges of a single European currency and financial market, executives of major banks based in Europe have recently been trumpeting the potential role of the world's second largest bond market in financing economic recovery in East Asia.

From Jan. 1, the separate debt markets of the 11 euro zone countries will be merged into one, denominated in the euro. Overnight, a giant bond issuing and trading entity with a total market capitalization of about \$7 trillion will be created, second only in size to the \$11 trillion bond market in the United States.

"Asian companies currently face bleak domestic liquidity conditions as regional banking systems remain in their domestic asset portfolios to offset non-performing loans," said Roger Davis, chairman and chief executive of Barclays Capital Asia Pacific. "The euro bond market should open up a vital avenue for these companies, allowing them to raise finance overseas and diversify their risk."

European bankers and officials also say that a strong euro will expand opportunities for Asian exports in Europe, encourage European investment in Asia and lay a firmer basis for stability in foreign exchange markets as Asian central banks — which collectively hold more than 40 percent of global hard currency reserves — increase their holdings of the euro at the expense of the now dominant U.S. dollar and increasingly link the value of their currencies to the euro as well as to units of other major trading partners.

But many Asian officials are taking a cautious approach to the euro. They want to see how it performs against other currencies — whether it will be strong or weak, volatile or stable — before making critical decisions about its role in

their countries' trade, currency valuing and foreign exchange holdings.

"Most of the central banks are taking a wait-and-see attitude," said Andy Xie, an economist in the Hong Kong office of Morgan Stanley Dean Witter Inc.

Still, a single European currency and exchange rate in an integrated market with an aggregate GDP of more than \$6 trillion, or 20 percent of world output, will reduce transaction costs for Asian exporters and investors in Europe.

In the long run, the euro will leave its mark on European

Asian economic relations by paving the way for more

stable relations, by creating

easier access to the European

goods and services markets,

and by facilitating the financing

of trade and investment

activities," said Steffen

Kenz, an economist in the

Frankfurt office of Deutsche Bank AG. "But there will also be an urgent need for Asian traders and investors to reconsider their business strategies in Europe so they can compete in the more dynamic environment."

Already, European companies are putting pressure on their

Asian trading partners to use the euro instead of the dollar or

other currencies to solve the problem of currency exposure.

Tommy Koh, executive director of the Asia-Europe Foundation, said that if European economic and monetary union succeeds, it will produce a more balanced and stable world, while creating new opportunities for Asian governments and business.

At present, although the U.S. economy accounts for only

about 25 percent of the world economy, the dollar is used in

about 50 percent of world trade and at least 60 percent of the

world's foreign exchange reserves are reportedly kept in

dollars. "If the euro were to become a strong currency, it could, over time, rival the U.S. dollar and surpass the Japanese yen for international influence," Mr. Koh said. "Asian governments should welcome the emergence of a strong euro because overreliance on the dollar has been one of the causes of the recent monetary crisis in East Asia. It is preferable for Asian currencies to be managed against a trade-weighted basket of currencies, including the dollar, the euro, the yen and others, than to be pegged to the dollar."

The Asian Development Bank said in a recent report that

central banks in the region would have to switch some of their reserves away from dollars, if only to reflect trade patterns more accurately. It

said that only about 12 percent of their reserves on average

were currently in European

currencies. East Asia's trade

with Europe amounts to around 15 percent of its total trade.

China, South Korea, Thailand and the Philippines have already said they will use the euro as a reserve currency or seriously consider doing so.

"If the euro proves stable, Thailand will use it as part of our international reserves," said a Thai government spokesman, Akapol Sorasuchart.

"We'll probably have some of our international reserves in euros," said the Philippine central bank governor, Gabriel Singson. "Of course, we are considering borrowing in euros, and we'll probably do a euro bond issue."

But Mr. Singson made it clear that Manila preferred to tap available soft loan channels before turning to the more expensive commercial debt markets.

"First, we will go to the World Bank, Asian Development Bank and so on for loans," he said. "Then we may also go to

a Yankee bond, a Samui, then a euro." Samui are yen-denominated bonds sold in Japan by foreign companies and governments.

The Philippines in September postponed plans to issue a \$300 million global bond because of poor market conditions. But Finance Secretary Edgardo Espiritu told Reuters recently that the government was likely to revive plans for a dollar bond issue, though perhaps not until 1999.

He also said that the government would consider launching Samui issues supported by disbursements from the \$30 billion "Miyazawa Plan" aid fund set up by Japan to help the Philippines and other East Asian countries hit hard by the financial turmoil and economic downturn in the region.

Of course, a single European bond market will not provide a quick-fix solution to Asia's credit squeeze, if only because borrowing costs have been hiked to reflect the Asian credit risk.

"Governments and firms will have to tolerate higher borrowing costs if they are to use the new opportunities opened up by the European bond market," said Desmond Supple, head of Asia Pacific economic research at Barclays Capital. "Nevertheless, for borrowers willing to accept market clearing prices, a growing demand will exist for their debt in Europe."

But he said that East Asian governments and companies must press on with reform and restructuring if they wanted to take full advantage of what was likely to become the world's fastest growing debt market.

"While the euro will be largely constructive for Asia, it will also be a clarion call to the region's policymakers to strengthen their moribund and unstable economies," Mr. Supple added.

**MICHAEL RICHARDSON** is Asia editor of the International Herald Tribune.

## Not Everyone Is Ready in U.S.

By Brian Knowlton

**W**ASHINGTON — With the euro's introduction for financial transactions soon to leave the realm of theory, large and medium U.S. companies, banks and securities houses have played an enormous catch-up game in recent months. By all indications, most are now well-prepared.

But for smaller companies and traders, 1999 is likely to bring regrets, when missed opportunities and unseen threats are belatedly recognized, analysts say.

Though the euro, as hard currency, will begin circulating only in 2002, any company that sells its goods or services in the 11 euro zone countries must be prepared from January to accept payments in euros, and know how to react to a price quotation or a request to express contracts in euros.

Companies should also be planning strategies to gain competitive advantage from the single currency, said Peter Crutten, who heads the euro internal program for IBM-Europe.

The picture of awareness and preparation is mixed, mostly depending on the size of companies and their European involvement.

In one survey earlier this year of large U.S. businesses with operations in Europe, 73 percent of chief financial officers rated the euro as being at the top or middle of their list of priorities, said Leslie Gunde, head of the EMU unit for KPMG Peat Marwick LLP in London.

Yet, a scant 1 percent of U.S. companies saw the single European currency as being more important to them than the computer software problems associated with the year 2000.

There has, however, been a massive amount of catching up, Mr. Gunde said. The question is whether there has been sufficient catching up for many smaller U.S. firms to turn the euro's advent from threat to opportunity.

"In the financial sector, there has been huge attention to it," said Christopher Matthews, a spokesman for the New York delegation of the European Union.

Large organizations are mostly well-prepared, "but it really drops off from there," said Sarwan Kashmeri, president of Niche Systems Inc., a New York consultancy that has organized conferences on the euro. "Among the medium and small companies, it's very sheltered."

Mr. Matthews recently met with a group of importers in the Midwest. "They were very curious" about the euro, he said, "but quite frankly, a lot of them showed a considerable level of ignorance." He said that American business people, "are starting to realize that there are questions they will have to deal with," he said. "Will they have dual-pricing on their brochures? How will they price after the transition? How will the competition react? These are fundamental things."

"Business will become a little more foreign to them," Mr. Matthews added. "But if they can get their act together and deal in euros from Day One, they can profit."

**O**THERWISE, analysts say, companies risk offending customers who want to deal only in euros, missing opportunities to push suppliers' prices lower, and losing a chance to move aggressively into new areas, such as electronic trade with Europeans.

The worries of smaller and medium firms found full voice last month at a New York conference on the euro and the travel industry. "Very few of us are prepared," said Sandy Cutrone, president of European Connection, a travel and meetings company in Roslyn Heights, New York, who attended the Travel Week conference.

For travel operators, as for other U.S. companies doing business with Europe, the need is immediate to be able to deal with price quotes, invoices and credit card billings in euros from European suppliers and clients.

Until local currencies are pegged to the euro on Jan. 1, tour operators are unsure about conversion rates — a problem since most are already starting to print their 1999 brochures.

Mr. Kashmeri estimates that for the average U.S. travel company with financial dealings in European currencies, the accounting and software adjustments needed to deal with the euro will cost 1.83 percent of revenue during the transition period. But Ms. Cutrone said that ultimately, "the euro will mean a lot less bookkeeping, and prices will be a little more consistent."

U.S. financial services companies will spend about \$1.8 billion to change customer service and delivery systems for the euro, according to the Tower Group, a Newton, Massachusetts, research firm. Many big U.S. banks will spend \$100 million to \$200 million each.

U.S.-based software vendors like PeopleSoft Inc., Oracle Corp. and FlexiInternational Software Inc. "are extremely well-prepared" to help companies plan changes in bookkeeping, payroll, tax reporting and database treatment, Mr. Kashmeri said.

International Business Machines Corp., another major player, began planning for the euro in 1996, well ahead of most other companies. But the last half year has been particularly intense. "I can't count the number of people doing euro-related activity," said Mr. Crutten of IBM-Europe.

For U.S. companies still planning euro transitions, there is little time to lose, said Mr. Kashmeri. Above all, he said, they should keep an eye on the doors it will open. "The euro is a strategic issue, changing business practices for an entire continent, and opening huge opportunities," he said. "Smaller companies that may not have wanted to go into Europe because of currency concerns should take another look now. There are opportunities in electronic commerce, electronic trading, all the areas where we lead the world. Huge opportunities will open up for American companies able to seize them."

**BRIAN KNOWLTON** is on the staff of the International Herald Tribune.

the euro will offer new mechanisms of financial and business relations

slow news agency

the implications of the euro on trade and industry are far reaching

ECONOMIC TIMES, INDIA

implications of the euro on Israel

REUTERS, ISRAEL

just what sort of money the euro will be will depend

INTERNATIONAL BUSINESS

potential speculation building up around the euro

AUSTRALIAN FINANCIAL REVIEW

IT WILL BE THE WHOLE WORLD FOR THE EURO TO BECOME A STABLE, EASY TO USE CURRENCY.

JULI NEWSPRINT, JAPAN

The euro will be expected to eclipse the US dollar

BUSINESS TIMES, SINGAPORE

accounting and computing systems to accept the new euro

WALL STREET JOURNAL

formidable euro currency would herald a more balanced international monetary system

XINHUA NEWS AGENCY, INDIA

trade with the continent using the euro rather than the dollar.

SOUTH CHINA MORNING POST

economies for the impact of the euro

AGENCIA ESTADA, BRASIL

the euro will undoubtedly become important to Asian banking institutions

TIMES, MALAYSIA

THE EUROS NOT JUST ANOTHER CURRENCY

AMERICAN BANKER

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## EUROPE AND THE EURO / A SPECIAL REPORT

# Europe's Journey to a Single Currency

## Giscard d'Estaing Retraces Steps That Led to Monetary Union

*Often considered the chief architect of European monetary union, Valéry Giscard d'Estaing, 72, was president of France from 1974 to 1981. He became France's youngest-ever finance minister in 1962 under President Charles de Gaulle and then headed both the finance and economics ministries under President Georges Pompidou. He is the ranking conservative member of the foreign affairs committee in France's National Assembly. He discussed the road to monetary union with Joseph Fitchett of the International Herald Tribune.*

**Q.** The idea of a European single currency germinates way back in the late 1960s, doesn't it? The cost of the Vietnam War plus social programs undermined the U.S. dollar and forced the Nixon administration to sever the link between the American currency and gold to devalue the dollar. Until then, the dollar had been pegged to gold and European currencies pegged to the dollar. Once the dollar started to float, the six-nation Common Market started looking for its own system for managing currency fluctuations.

**A.** Two factors were decisive in our thinking at that juncture. We could see the end coming of the Bretton Woods system, the grid of fixed exchange rates that had protected free trade since World War II. Another unusual factor — almost a historical coincidence — was that political power had been centralized in the hands of individuals who were both finance ministers and then national leaders: Helmut Schmidt in Germany, Werner in France and Pierre Werner in Luxembourg.

We realized that the Common Market, with no trade barriers, would not last long with fluctuating currencies. That would have left the door open to competitive devaluations. Countries could resort to lowering their currencies' value in order to make their goods cheaper and increase exports through this artificial competitiveness. A commercial war of that sort would destroy the Common Market because countries would take protectionist measures in self-defense and re-erect the trade barriers we were trying to do away with. That almost happened in 1992 and 1993 when Italy and Spain dropped out of the European exchange rate grid and devalued their currencies; their exports to the rest of us shot up artificially, and if it had gone on for a year or so, France, Germany and other countries would have been forced to retaliate with new tariffs.

That was the challenge we foresaw, and we put our conclusions into a report in 1970 issued by Pierre Werner since Luxembourg was in the chair at the

moment at the Common Market. Interestingly, the idea of economic convergence — that monetary union would only work if all the participating countries managed to roughly align their policies and performance — appears right there in the Werner report. Conceptually, it was there from the beginning. But our main concern at the time basically involved finding a formula whereby the six countries could harmonize fluctuations among their currencies by containing movements within a narrow band.

Our invention was called the "snake" because our currencies undulated up and down roughly together against the dollar. The idea was that the six Common Market countries' currencies could float on the world market, but they would stay in rough alignment within a band. The trouble with this system — as we figured out after it broke down twice — was that, in practice, it put the whole responsibility for maintaining the bands on countries with weak currencies.

**Q.** So by the mid-1970s, after the first oil shock to European economies, the snake was discredited, even though by this time you were president in France and Mr. Schmidt was chancellor in West Germany.

**A.** And we started thinking about a better system with two key improvements. First, we agreed that the responsibility for making the system work had to be shared by all the partners. If the Italian lira got in trouble, the German Bundesbank had to help defend it by buying lire.

Second, we realized that we were actually talking about a single currency. Once you align your currencies so tightly, they have already lost most of their national independence. Chancellor Schmidt agreed with me on this point, but we decided to adopt a gradualist approach and started a two-stage process: first, shared responsibility; then, monetary union.

**Q.** So this initiative really came from just the two of you?

**A.** In all, four people were directly involved in the creation: the chancellor and a junior minister who worked with him, and myself with Bernard Clappier, the man whom I had put in charge of the Banque de France and who had, many years earlier, been instrumental in helping Robert Schuman, the foreign minister of France, in setting up the European Coal and Steel Community.

We settled the last details together during a dinner at the Elysee Palace in June 1978. The document we produced contained three key points: the plan for

currencies to vary no more than 2.25 percent with equally shared responsibility for maintaining the fixed parities; the creation of a new monetary unit, called the Ecu, which provided the baseline for our calculations of currency variations; and the announcement that two years later we would create the European Monetary Fund — in other words, a European central bank. We presented it to leaders in the Common Market, which had now grown to nine members, but it got a mixed reception.

Oddy enough, the Dutch were reticent; the Italians said that they could not live up to the system; the British said that it was premature for them, but they wanted a voice in helping manage it. The Bundesbank and other central banks were against it; the financial press largely held that it wouldn't work. But we were convinced that we had to have a single currency to preserve the single market.

Secondly, I wanted Europe to move toward political unity, and monetary union amounted to a strong step in that direction. U.S. history showed that monetary union, when it came in the 19th century, helped bring about a federal state and cement national unity.

**Q.** The European Monetary System got under way on schedule in 1979, but two years later you were forced from office when you lost the election just as was Mr. Schmidt the following year.

**A.** Exactly. At first, the newcomers didn't pay much attention to the system.

The policies of my successor, François Mitterrand, ran in exactly the opposite direction toward higher wages, higher costs, higher spending. These Socialist policies led to two devaluations, which were orthodox because they occurred according to the rules in the system. But when a third devaluation became unavoidable in 1983, Germany and the other countries in the system balked and wouldn't go along. So France had to change policy in order to stay in the system, a decision that caused a crisis for the French left, a change of government and a reversal in economic policy.

**Q.** After that, things settled down to cruising speed?

**A.** Yes, because we had achieved de facto monetary union. But what worried us was that all the momentum had gone out of the idea of a single currency. So in 1986 we formed a committee consisting roughly of two people from each country, one with special political stature and the other with economic credentials, drawn from different political parties. For example, I was joined by Pierre Beregovoy, the Socialist who had been finance minister. From Italy, there was Gianni Agnelli and a distinguished cen-

tral banker from the center left. Helmut Schmidt was paired with the head of Deutsche Bank. There was Lord Callaghan from Britain, Etienne Davignon from Belgium.

We had a series of meetings and then took our ideas to Jacques Delors, who was then in Brussels as the president of the European Commission. He circulated the idea among EU leaders, so when they started looking around for an idea at the Madrid summit in 1989, they decided to take up ours and told Delors to form a committee, which he did, basically taking over the people from our committee. Ultimately, our work ended up as the core of the Treaty of Maastricht.

**Q.** What were the key innovations?

**A.** One was the independence of central banks. That was not new for the Germans in the sense that it had been imposed on Bonn by the U.S. occupation authorities after World War II. But it was new for France. It was new even for Britain, which only recently took the step. For the French, it was a radical step.

I remember publicly calling for the Banque de France to be made independent in 1986, but it didn't happen, even though Jacques Chirac was prime minister then for two years. It was the Maastricht Treaty which stipulated that status for all the member states' central banks and that the European Central Bank would also be independent.

This was a key point. Now this view prevails very strongly, as we saw recently when Oskar Lafontaine, Germany's new finance minister, tried to publicly challenge the European Central Bank over interest rates. Despite considerable backing in the media, his calls were ignored, so this attempt at public pressure served, paradoxically, to confirm the bank's independent status in the public mind.

Another key point was the theme that monetary union would require governments to pursue similar economic policies. This is not imposed in the treaty because governments retain control of these decisions. In practice, there is a very strong pressure in this direction, as we have seen in Europe. A month ago after the German elections, there was a lot of talk about a new need for Keynesian economics, but then, even with the four big countries under center-left governments, it was agreed to follow the path that had been laid down before.

**Q.** If the idea of independent central banks was so alien to Europe, what convinced you and the other leaders to embrace it?

**A.** Germany's history. Germans have seen their currency collapse and their



Valéry Giscard d'Estaing, right, with Helmut Schmidt at an EC summit meeting in July 1978. The two were the key architects of monetary union.

savings wiped out by inflation twice this century, the last time just after World War II — within living memory. They concluded that the only guarantee against that happening again is an independent central bank that doesn't let politicians play fast and loose with the economy.

When we started talking about monetary union, it quickly became clear to me that the Germans would never agree unless they were sure of keeping that guarantee. Since monetary union could only work if both Germany and France took part, central bank independence was a precondition with no room for compromise. In fact, that turned out to suit us, too. If we were going to give up our national prerogatives in this area, it seemed preferable to surrender the authority to an institution rather than to a group of other governments.

**Q.** Finally, what does the history of the single currency foreshadow about the future of the euro?

**A.** The interesting point is that the single currency is coming to fruition under European leaders who never believed in it. That's true of the French leaders in office now, and Gerhard Schroeder was utterly remote from such ideas in the 1990s — and even publicly voiced doubts about the euro at the start of his electoral campaign. These people did not take part in the creation of the single currency and then doubted that it would succeed. In my view, that shows just how powerful the original idea proved.

## Optimism on Birth of Currency

Continued from Page 20

itself to be credible, and there are already signs that the euro will be a strong currency since we are seeing plenty of portfolio reallocation into the euro."

Kim Schoenholtz, chief economist for Salomon Smith Barney, adds that against the backdrop of the ongoing global financial crisis, "there is plenty of evidence that the shift to the euro has shielded Europe from some of the worst consequences of the crisis by reducing financial market volatility."

Yet even as Europe's politicians prepare to celebrate at this weekend's EU summit meeting in Vienna, there is still plenty of unfinished business, and even the prospect of conflict over some policies among the 11 euro zone governments. Among the most pressing problems, says Mr. Schoenholtz, is the sustained double-digit level of unemployment and worrying signs of a lack of vigor by European policymakers in moving to liberalize labor markets or promote competition.

In Germany, Europe's biggest economy, the efforts to keep a lid on wage increases that hallmark the Kohl era have given way to a new Keynesianism under government of Chancellor Gerhard Schroeder and his equally powerful finance minister, Oskar Lafontaine, a long-time ally of trade unions.

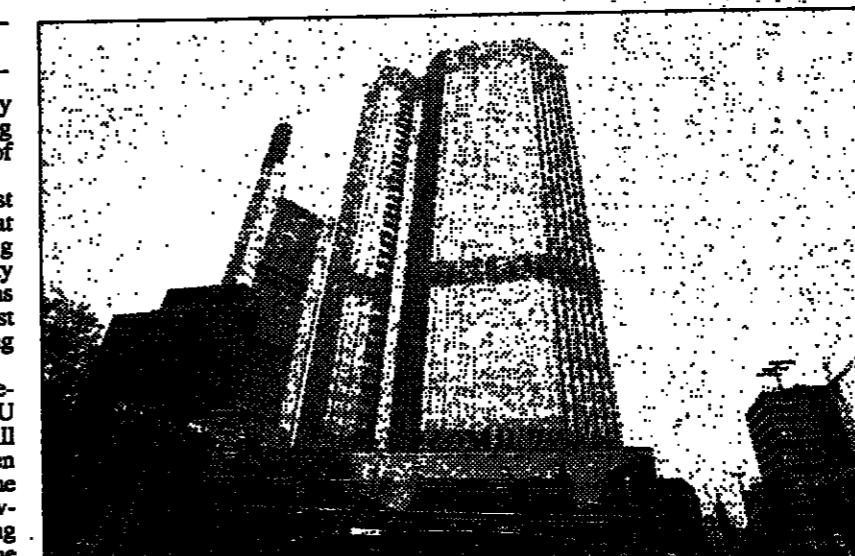
Mr. Lafontaine's top advisers have argued for higher wage increases as a way of stimulating consumer demand, and the IG Metall engineering union has duly responded with a 6.5 percent wage increase demand — at a time when inflation is running at just 0.7 percent.

In Germany, and in the euro zone nations, meanwhile, industrialists complain about the exceedingly high non-wage costs which, they say, act as a disincentive to job creation. Figures from Merrill Lynch & Co. show that, whereas nonwage costs equal an average 38 percent of salaries in the United States, the proportion in Germany is 82 percent, in France 93 percent, and in Italy 102 percent.

Unemployment in high-cost countries is between 10 and 12 percent, while in places such as the United States or Britain, where costs are lower, the level is less than half that of Continental Europe. But with 15 of the 15 European Union member governments now ruled by the left, there is a clear inability or lack of willingness to slash welfare spending in order to reduce employer costs. In Germany, Mr. Lafontaine appears to prefer reducing employee contributions while loading more taxes onto the corporate sector.

Taxation is rapidly becoming a red-letter issue for the euro-11 countries amid growing controversy over proposals being spearheaded by Mr. Lafontaine to achieve Europe-wide tax harmonization.

Although there is insistence from the Germans, and from the European commission in charge of taxation and the



The Eurotower in Frankfurt, headquarters of the European Central Bank.

single market, Mario Monti, that this does not really imply higher taxes, few business leaders buy the argument.

Many economists and industrialists bristle at the idea of imposing a minimum 20 percent withholding tax on income from the savings and investments of nonresidents in all 15 EU states, even though at present only four EU member states impose such a tax.

Mr. Lafontaine and other supporters of tax harmonization say they merely want to stamp out "harmful" tax competition, but free market advocates across Europe argue that tax competition is helpful instead.

The British chancellor of the Exchequer, Gordon Brown, who is at loggerheads with Mr. Lafontaine, has put it most bluntly. "Tax harmonization," he has said, "is not the way forward. Business throughout Europe does not want it."

After the launch of the euro in January, there will still be plenty of unfinished business, to be dealt with initially under the leadership of Germany, which takes over the revolving six-month presidency of the EU.

One area that worries U.S. officials is the demand by Europe to augment its representation inside the Group of Seven by adding a number of European representatives to the G-7.

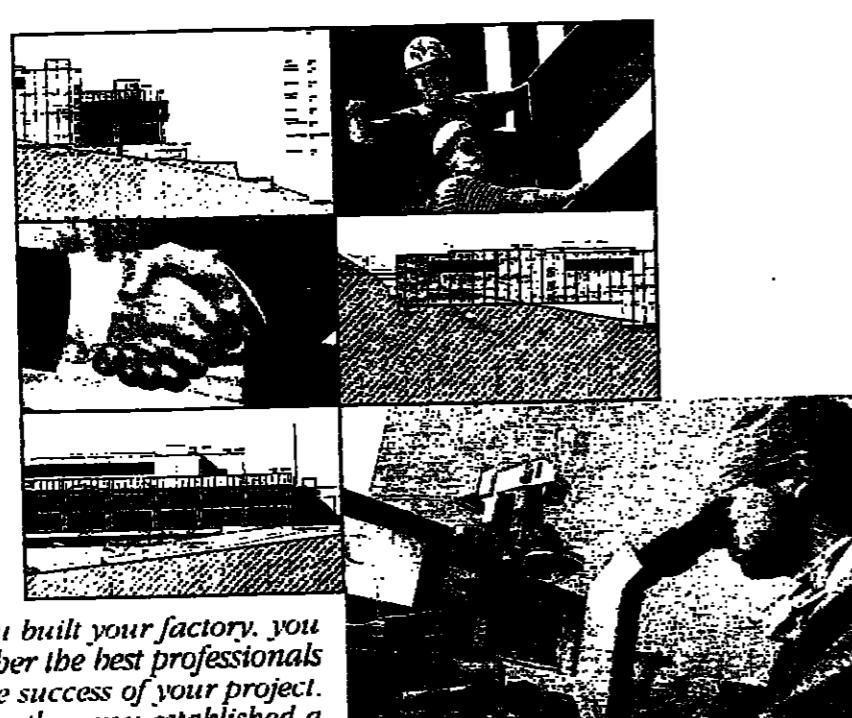
Another issue is Germany's proposal for a new system of setting target zones for the dollar, yen and euro, which implies a degree of intervention in currency markets that has been rejected by the International Monetary Fund and is said to trouble both the Federal Reserve Board and the Bank of Japan.

In addition, while Europe may be uniting on money, it appears thus far unable, despite some proposals for cooperation on defense issues between London and Paris, to speak with one voice on foreign policy emergencies ranging from Kosovo to the dilemma of what to do with the fugitive Kurdish rebel leader Abdullah Ocalan.

The launch of the euro looks like it will be a success, but even more telling will be how successfully Europe's economy is managed in the era of the euro.

**ALAN FRIEDMAN** is the global economics correspondent for the International Herald Tribune.

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## EUROPE AND THE EURO / A SPECIAL REPORT

# Economic Achilles' Heel: An 'Asymmetric Shock' to System

By Barry James

**B**RUSSELS — The dismal science has a couple of words for it: "asymmetric shock." The term refers to any serious distortion in a particular country, region or industrial sector that goes against the prevailing cycle in a given economic area — like a boat that remains stuck in the mud when the tide comes in.

Economists say such a shock, if big enough, is the one thing that could seriously derail the European single currency. Such events are hard to predict, but recent major examples include the reunification of Germany or the crisis that forced Britain out of the European exchange rate mechanism.

Apart from structural funds designed to help poorer or peripheral regions catch up with the wealthier core countries, there is no provision in the treaty setting up the single currency for bailing out a country in difficulty, as there is in the American federal system.

And there is no mechanism for a country, once in the currency zone, to pull out. As the British say, members are "in a penny, in for a pound," or in this case, in for a euro.

The single currency, however, is thought likely to lessen the possibility of such shocks. Ideally, the 11 nations initially sharing the euro will respond as one to the expansions or contractions of the economic cycle. This has certainly been the case in recent months in which economic convergence has remained tight, despite the crisis in Russia, Asia and the emerging economies. EU leaders refer to the currency area as a "pole of stability."

During the 20-year struggle for economic convergence in Europe, countries have on occasion fallen out of synchronization with the rest. Governments adjusted to the problem primarily by juggling exchange rates. A lower rate of ex-

change makes a country artificially, and usually only temporarily, more competitive. But exchange rates within the single currency area have been effectively locked into place since May, and come Jan. 1, there will be no possibilities for rate adjustments among the 11 because all their currencies will then become units of the euro. The European Central Bank in Frankfurt will be responsible for establishing exchange rates with countries outside the euro zone.

The central bank's overriding duty will be to maintain monetary stability throughout the zone, and to achieve this task it cannot be deflected by problems in a particular country or economic sector. In other words, the central bank in cooperation with the national banks will be broadly responsible for dealing with symmetric shocks, such as the global economic downturn, that affect the entire system.

But if the economic cycle gets out of synchronization within the euro zone, it will be up to member governments to take the appropriate stabilizing action — with those experiencing excess demand following deflationary policies and those experiencing excess supply following inflationary policies.

However, the hands of governments are tied by the stability and growth pact that underpins the euro. Any country trying to spend its way out of difficulties would face massive fines if it exceeded the so-called convergence criteria on which the currency is based. The criteria call for an annual public deficit of less than 3 percent of gross domestic product, and demand that countries work toward reducing their national debts to a ceiling of 60 percent.

This is why both the central bank and the European Commission, the EU's executive body, are insisting on the need for governments to control public debt and deficit spending now, while economic conditions are relatively favorable, rather than using surpluses to ease off the brakes and attempting to solve high unemployment by spending their way out of the problem. The theory is that, if governments run

budgets that are balanced, or preferably in surplus, they will be better able to deal with any unanticipated shocks.

Similar discipline should apply to spending within the EU as a whole as it prepares to take in up to six new members, with at least a further five countries waiting in the wings. The entire budget for the EU is pegged to a ceiling of 1.27 percent of GNP. This limitation of resources coupled with the costs of enlargement presages a period of tough negotiations between countries like Germany that are seeking to reduce their contributions to the budget and those like Spain that are resisting any reduction of their receipts from the structural funds and the common agricultural policy. There is certainly no fat in the EU budget to help cushion shocks incurred by member states.

**T**HE main tool available to governments in dealing with asymmetric economic movements will be the fiscal one. But here, too, there is evidence of increasing convergence with the euro members seeking to limit beggar-thy-neighbor tax policies. The EU last year adopted a code of good conduct aimed at reducing or eliminating corporate tax loopholes deemed to be unfair. Gov-

ernments also are studying a common method of taxing savings, either by retaining tax at source or by reporting interest payments to the home country of the depositor. Again, this is aimed at preventing distortion in the single market by dissuading investors in Germany or France, for example, from putting their money into tax-free havens like Luxembourg.

Both France and Germany are talking of the need for more tax harmonization or coordination. Although Britain insists that it has a veto over tax policy, the fact is emerging that countries within the euro zone are free to take whatever measures they deem necessary to ensure economic stability.

The central bank and the commission both warn that the

correct way forward is not through higher taxes, but through spending cuts. They say that the opportunities offered by economic and monetary union will only be fulfilled if product and labor markets are made to operate more efficiently, and if the excesses are wrung out of costly social welfare systems.

At the same time, governments are committed to the European social model and to bringing down the high rate of unemployment, hovering around the 10 percent mark for the EU as a whole.

Europe lacks one important safety valve that helps smooth economic shocks in the United States — the willingness, or the ability, of workers to move to another state. Most European workers are tied to their home countries by language. But economic and monetary union should accelerate a trend away from nationally based industries and services toward an international, sector-based economy.

This will make it more likely that economic shocks will be spread across the region rather than being confined to a specific country, and will therefore be possible to deal with them on a collective basis.

"Shocks that are truly national are already relatively infrequent," says a study by the commission's directorate-general for economic and financial affairs. "And they will become even more so once economic and monetary union is in place: the stability-oriented macroeconomic framework will reduce the likelihood of policy-induced shocks (such as disturbances originating in reckless fiscal behavior), which in the past have been an important source of country-specific shocks. Moreover, the increasing trade interdependence among EMU members will further blur the economic importance of national boundaries, thereby reducing national specificity of economic developments."

**BARRY JAMES** is on the staff of the International Herald Tribune.

## The ECB Passes First Big Hurdle

By John Schmid

**F**RANKFURT — It looks like the Bundesbank. It speaks like the Bundesbank. It even growls like the Bundesbank. The newly minted European Central Bank, modeled closely on the powerful German reserve bank, already has measured up impressively in an unexpectedly early test of its authority, according to many economists, politicians and central bankers.

For a few tense weeks this autumn, the new bank found its political autonomy under almost daily attack by Germany's newly elected Social Democratic government, which was eager to rev up growth through easier credit.

"They told off the politicians," said Joachim Fels, economist in London for Morgan Stanley Dean Witter Inc. "The way they reacted helped them defend and even gain credibility."

Scoring credibility points now could make a critical difference after January when the common currency is launched and the real work begins.

The ECB has no shortage of highly regarded skeptics who see hazards in the still-unresolved world financial crisis or in the inability to rein in the euro if it surges uncontrollably against the dollar. Others predict incessant clashes with 11 different cultures and economies in the 11 nations adopting the euro. Some academics even see design flaws in the ECB's own structure, which they warn could interfere with sovereign decisions.

The foremost, if undisputed, headache of the ECB's credibility will be how adroitly it executes the hand-in-money act of the Bundesbank. It was the Bundesbank, which itself has a long history of rebuffing politicians, that insisted that the ECB adopt its strict separation of government and central banking.

But few expected a baptism by fire for the ECB even before the Jan. 1 inauguration of the euro, when the bank takes control of the economic levers for 11 European nations.

Led by the forceful Finance Minister Oskar Lafontaine, the new Bonn government insisted almost daily on "lower interest rates by ministerial sanction," as one newspaper wryly observed. Mr. Lafontaine also sought control over exchange rates, which with interest rates are the most important instruments for steering an economy. The Finance Ministry drafted plans for government-supervised currency target zones. Mr. Lafontaine even mocked the "infallibility" of Germany's revered Bundesbank on national television and his aides cast dispersions on the "stability pact" that places stiff fines on eurozone governments that overshoot strict deficit limits.

In its reply to these attacks, the ECB borrowed liberally from the rhetoric of the Bundesbank. Wim Duisenberg, the president of the ECB, said, in effect, that the bank was ready to punish any free-spending politicians and overzealous trade unions by imposing harsh monetary conditions. Without "sound budgetary policies and responsible wage behavior," the ECB can only fight inflation "with a high cost" to the economy and employment, he said on Nov. 12.

Mr. Duisenberg also retained that it is "normal" for politicians to give their advice but "abnormal" for a central banker to pay attention. And he rejected any currency controls.

**T**HE assault hardly came at an easy time as the bank was working overtime just to meet its own Jan. 1 deadline. At its Eurotower headquarters in Frankfurt, staffers talk of long hours, skeleton crews and hastily assembled offices.

When Mr. Duisenberg took up his functions last year, the ECB embryonically was still called the European Monetary Institute, and did not become a central bank until six months ago. The EMI had been run by Alexandre Lamfalussy, who deliberately steered clear of controversy.

The contrast between the unassuming Mr. Lamfalussy and the blunt Mr. Duisenberg reflects how the ECB has come a long way in a short time, with a decisiveness fitting for an institution that could rival the U.S. Federal Reserve.

Like the Bundesbank, the ECB is politically autonomous, in theory making it the most independent and powerful institution within the 15-nation European Union. Like the Bundesbank, it has its headquarters in Frankfurt. And like the Bundesbank — which supplied many of its key staff — the ECB enjoys the constitutional right to fight inflation without having to fret about growth or jobs. But scratch a little deeper and the ECB looks a little different.

The ECB's governing council includes members of each of the 11 national banks. And each of those national banks, which collectively employ more than 60,000 people, dwarf the relatively small ECB. The ECB started off with about 400 staff members last summer and expects to have 570 by year end.

"The ECB suffers serious faults in its design that sooner or later will surface," a recent report by the London-based Center for Economic Policy Research argues. The report said that the national central banks maintain too much power, "which weakens the ECB." National governors, who constitute the majority in the 17-member ECB council, will respond to national and not always European interests, it added. "This will be particularly troublesome when quick decisions have to be made," especially if the global financial crisis hits Europe, the report says.

ECB officials, however, say the wheel-and-spoke system is designed to coordinate with the national central banks, taking advantage of their research and statistics without encroaching on their local money market operations.

"The ECB has a mix of national economies, which the Bundesbank never had," said Adolf Rosenstock, an economist in Frankfurt for Nomura International PLC. "It is still national policies and national economies. That will be the real test of the ECB, which is how to make monetary union work long term." And he added that that test will come "after the first year or two, when the honeymoon is over."

**JOHN SCHMID** is the International Herald Tribune's Germany correspondent.

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## EUROPE AND THE EURO / A SPECIAL REPORT

## Will Dollar Be Dethroned? Euro May Herald End of an Era

By Reginald Dale

**W**ASHINGTON — A quarter of a century ago a disconsolate handful of European reporters was covering what may have been one of the most boring meetings ever held in Brussels. Senior Finance Ministry officials were putting the finishing touches to the basket of currencies defining the then European Community's unit of account.

Suddenly, not one, but two correspondents of the official Chinese government news agency entered the press room. This was a very important story, they told the astonished Europeans. Why? "Europe is plotting the overthrow of dollar imperialism," the Chinese explained.

Two and a half decades later, what started as the unit of account is about to evolve into the euro, the common currency due to be introduced by 11 members of the European Union on Jan. 1.

The Chinese were not exactly right. The euro is not being introduced by the Europeans in order to subvert the United States. That was wishful thinking inspired by China's Marxist-Leninist ideology.

But the Chinese, with their long view of history, still had a point. The euro is the first serious challenger to the dollar's status as the top world currency

since the dollar itself dislodged the pound sterling about 70 years ago.

Now, in the view of many economists, the world is heading toward a bipolar system in which the dollar and the euro will eventually share top billing, with the Japanese yen a distant third. Already from Jan. 1, the euro-dollar exchange rate will become the world's most important measure of currency values.

In contrast to the farsighted Chinese, however, it has taken more down-to-earth Americans a long time to wake up to the euro's significance. Many, relying exclusively on skeptical English-language media, underestimated the dynamism of the drive for European integration on the Continent.

They figured they need not deal with something that might not happen, and hoped that the euro would somehow go away — or would not work — if they ignored it. Around two years ago, financial New York caught on to the euro's importance before political Washington.

Washington's reaction is still low-key. The U.S. Treasury has taken the line that the euro is Europe's affair, and that if it's good for Europe, it should be good for the United States. In the words of Lawrence Summers, deputy secretary of the Treasury, "If the euro works for Europeans, it will work for us."

European economic and monetary union "will mean a larger, more rapidly

growing market for our products and a stronger partner for the United States around the world," Mr. Summers has said. "As long as we keep our [economic] fundamentals strong, the dollar will do fine."

That may turn out to be true. But as the euro's debut approaches, most of the key questions surrounding its future relationship with the dollar remain unanswered. Nobody really knows how volatile the new currency's exchange rate will be against the dollar, how strong or how weak the euro will be or how quickly it will challenge the dollar as a reserve currency.

Needless to say, there are conflicting views. Most economists seem to believe that the euro will be relatively strong, but that it will swing more sharply up and down against the dollar than the Deutsche mark and the other individual European currencies that it is to replace.

"Vis-a-vis the major currencies, the euro stands to be volatile," says John Llewellyn, global chief economist at Lehman Brothers in London.

One reason for thinking so is that the total area in which the euro is to be introduced will be much less dependent on foreign trade than the 11 individual countries that comprise it. That is because much of the participating countries' trade is with each other, and that trade will no longer count as "foreign" in economic terms.

Another reason is that the euro stands to be volatile, says John Llewellyn, global chief economist at Lehman Brothers in London.

As a result, the argument goes, the euro zone authorities will be much more inclined to adopt a policy of "benign neglect" toward the euro's exchange rate, just as the U.S. authorities often have done toward the dollar. Foreign trade accounts for a similarly low share of the U.S. economy, with exports representing only around 10 percent of total output in both regions. Mr. Llewellyn points out.

The theory is that their low dependence on foreign trade will allow the euro countries, like the United States, to focus more on domestic rather than external goals and tolerate greater volatility in the exchange rate.

**B**UT not everyone agrees. Brendan Brown of Tokyo Mitsubishi International PLC in London predicts "a period of stability" for the euro-dollar exchange rate, on the grounds that the U.S. and euro zone economies are likely to follow broadly similar cyclical paths — a slowdown for several quarters followed by a rebound — through the next two years.

One thing on which virtually all analysts agree, however, is that there is no future for proposals to set targets for the euro-dollar exchange rate, as recently proposed by Germany's new finance minister, Oskar Lafontaine.

Washington is not ready for such an idea, and it is hard to see how it could

operate in practice. It might, for instance, require the Europeans to raise interest rates to defend the euro when they want to lower them to promote economic growth, hardly a prospect likely to appeal to Mr. Lafontaine.

The key question is somewhat different. It is how far, and how fast, holders of dollars — whether central bankers or private investors — will want to convert them into euros. That will affect both the euro's exchange rate against the dollar and its future as a reserve currency.

Here again there are sharply differing forecasts, with some economists predicting the move will be quite rapid, and others that it will be slow and gradual. Much will depend on the speed with which the new European Central Bank gains the confidence of the marketplace.

Bearing some unforeseen circumstance, I believe that the market from the outset will have considerable confidence in the monetary policy of the ECB," says Robert Mundell, one of America's leading authorities on the euro.

"The introduction of the euro would, at once, make it the reserve currency of choice for a large number of countries connected in trade and finance with Europe," Mr. Mundell wrote recently in the Atlantic Economic Journal. More countries, including China and other Asian nations, would almost certainly

follow. Others believe it will take longer for the bank to establish a positive track record.

Nevertheless, huge sums could eventually move from the dollar to the euro. Fred Bergsten, director of the Institute for International Economics in Washington, has forecast that up to \$1 trillion could flow from dollars to euros over several years, in one of the biggest monetary transfers in history.

Few believe that the dollar will lose its dominant position overnight. Around 60 percent of world currency reserves are currently held in dollars, and dollars are bought or sold in more than 80 percent of trades on foreign exchange markets, against 37 percent for Deutsche marks and 24 percent for yen, according to EU figures.

Mr. Summers believes that the dollar will remain the primary reserve currency for the foreseeable future. "We expect the impact of the euro on the monetary system to be quite limited initially and to occur only gradually," he has said.

Others, however, think he may be surprised by how quickly the euro establishes itself as a rival, or preferably a partner, to the dollar in a bipolar system. The Chinese, for the moment, aren't making any public predictions.

**R**EGINALD DALE is a columnist based in Washington for the International Herald Tribune.

**Q&A / William McDonough, President of the Federal Reserve Bank of New York**

## Why a Successful Euro Will Benefit U.S. Interests

*The Federal Reserve Bank of New York is the U.S. central bank's operating arm in the money and foreign exchange markets. As the bank's president, William McDonough has closely followed the development of the euro, which he discussed with Lawrence Malkin of the International Herald Tribune late in November.*

**Q.** What will it take for the euro to become a viable currency in commercial circulation and in national reserves?

A. I am certain that the euro from its first day will become an important trade currency. For the euro to become a reserve currency, it also must be a successful investment currency, and the first thing that requires is a fixed income [bond] market. The existence of 11 sovereign bond issuers will provide a good basis for that. The question that remains

is whether the equity markets in the 11 countries will develop. The existence of the euro and the developments toward a single stock market will lead to improvements in the width and depth of European stock markets. That will take place.

**Q. How long?**

A. The extreme opinion is that the euro will be an important reserve currency in January 1999; that is exaggerated, it will not happen that fast. The other extreme, that it won't happen at all, is simply wrong. My own feeling is that the likely period for the euro to solidify as an important investment currency is three to five years. But a realistic and less optimistic — but not pessimistic — view is that it would take somewhere from five to seven years.

**Q. What does the Fed see as the odds of a member country bailing out?**

A. I think they're extremely low. The reason is that the 11 countries now participating in the euro have very similar economies in relation to external shocks. The easiest external shock to analyze is an oil price shock. The 11 countries would have essentially the same reaction to an oil price increase, while the regions of the United States would actually react more asymmetrically, depending on whether they have oil.

**Q. How will the euro as a reserve currency affect the dollar?**

A. The world is better off if there are two important reserve currencies. I think the dollar will be in first place for the next decade or so and the Japanese yen will be a third reserve currency but considerably less important. That benefits the United States because we now are following extremely sound macroeconomic policies and have a fiscal sur-

plus. But I believe it benefits any country to be subject to an external discipline that encourages good macroeconomic behavior. A successful euro becoming a successful reserve currency is therefore essential in the U.S. national interest.

**Q. But that may make it difficult for the United States to run trade and federal budget deficits. Foreign investors will be less likely to buy our bonds or even keep our hundred-dollar bills in their pockets, and that in turn will make it more difficult to finance our trade deficit and satisfy our voracious consumerism. Politicians may not like that.**

**A.** The trade deficit is a result of the American tendency not to save enough. At present that has a relatively benign effect on the world, because we suck in a very high level of other countries' exports. But over time, even the United

States cannot be a chronic user of other people's savings, and I therefore return to the notion of external discipline. It will be felt rather gradually and probably rather benignly because, if you assume as I do that we will continue to follow sound fiscal and monetary policy, the United States will still be seen as a very attractive place to invest.

**T**herefore I think that there will be no crisis in which the world tells us, "We've had enough of these trade deficits, would you please fix them?"

**Q. How will the Fed relate operationally to the new European Central Bank?**

**A.** The Federal Reserve Bank of New York already has established working relationships with the ECB. We will have people working at the turn of the year as we formally redenominate our holdings; all our European reserves are in Deutsche marks, and they will become euros.

**Mr. McDonough says the euro will be an important trade currency.**

From the world market leader in mobile computing: A Formula One story

**WE'VE OVERTAKEN FORMULA ONE ON THE INFORMATION HIGHWAY**

Speed is of the essence whether on the Formula One racetrack, where technological innovations are translated into fast lap times, or in media coverage of this highly popular sport.

Former F-1 driver Jochen Mass is one of many sports journalists who use Toshiba notebooks and the information highway to

send up-to-the-minute information to editorial offices at racing speed. His Toshiba notebook is always at hand. Split seconds count in everyday business as well as in the world of Grand Prix racing. The growing demand for immediate transfer of text, image and sound data has made many com-

panies dependent on the speed of information transmission — they rely on the communications technologies of mobile computing for their own business victories.

Toshiba multimedia technology fulfills today's business requirements with maximum reliability. Using a Toshiba notebook and

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**TOSHIBA**

## EUROPE AND THE EURO / A SPECIAL REPORT

# Tax Issue Slows Momentum for Early U.K. Entry

By Tom Buerkle

**L**ONDON — For advocates of Britain's entry into economic and monetary union, including the government of Prime Minister Tony Blair, things had been going remarkably well in recent months.

Public opposition to entry showed signs of softening as the realization grew that the launch of the euro was both a certainty and a source of stability during the recent turbulence on financial markets. British interest rates fell closer to euro zone levels than ever before while the pound eased to a more sustainable level. And British industrialists stepped up their demands for a clear commitment to enter monetary union, saying the euro was vital to Britain's economic interests.

But the momentum in favor of the euro was interrupted abruptly last week when the finance ministers of Germany and France suddenly renewed long-standing calls for harmonizing taxes across Europe by majority voting, a step that would greatly curb the ability of Britain and other countries to set their own tax rates. Their move caught Chancellor of the Exchequer Gordon Brown off guard at a meeting of European Union finance ministers, and set the British press into a frenzy.

"We will fight, fight and fight again to save the pound and save Britain," The Sun tabloid screamed in a front-page editorial.

The events dealt a blow to any hopes of an early British entry to monetary union, prompting as it did the government to cast aside its rhetoric of positive engagement with Europe and resort to the language of the threatened veto.

"It makes it harder politically for the government to think about launching any kind of campaign of support for EMU," said Gerald Holtzman, global strategist at Norwich Union Investment Management who has worked closely in the past with leaders of Mr. Blair's Labour government.

"So far, most long-range calculations remain intact. The government has maintained its determination to plan for a referendum on monetary union sometime around 2002, when euro notes and coins go into circulation, and most analysts assume that timetable will hold."

But the dispute over taxes underlined an essential dilemma facing Britain as well as Denmark and Sweden, the other two EU countries that are staying out of the euro by choice. Monetary union exercises a powerful pull, and these countries risk losing jobs and political influence to their euro zone neighbors, the world's second-largest economy after the United States. But entry will require a surrender of sovereignty, that is still very difficult for these countries to contemplate, and in some cases even debate calmly.

All three governments have made subtle but significant leanings toward the euro in recent months. Prime Minister Goran Persson has given fresh hints of a referendum on the euro in Sweden since winning re-election in September. The Danish government has raised similar talk after watching its kroner get buffeted by the financial turmoil in September while euro zone currencies were unaffected. And a senior British minister referred to the euro as a matter of when, not if.

None has prepared to risk a bold embrace of monetary union, though. The shared calculation is that it is wiser to wait until the euro has proven its mettle and the costs of staying outside are evident to voters. But a government that waits



The City of London remains the center of European finance even though Britain is not part of the euro zone.

rather than setting the agenda risks being put on the defensive.

In Denmark, for example, Prime Minister Poul Nyrup Rasmussen abandoned his reticence about a referendum after the country this fall had to pay a clear price for staying out of the euro. The Danish central bank pushed up interest rates by a percentage point in September to defend the krona from the turmoil on global financial markets, a storm that didn't affect most euro countries.

But ratings for Mr. Rasmussen's Social Democratic Party fell to a 95-year low of 19.5 percent last week because of discontent over proposed pension reforms, and most analysts believe the government's standing is too shaky to even contemplate an early referendum.

Still, moves are under way in all three countries that would facilitate their eventual entry to the euro zone.

Denmark is maintaining the closest link to the euro, promising to keep the krone trading within a fluctuation range of plus or minus 2.25 percent.

In Sweden, the government last month said it would give 20 million kronor to public-interest groups to discuss the impact of the euro, something that could set the stage for a referendum campaign now that Mr. Persson has adopted a more positive stance toward the European Union.

And Britain next month plans to publish a national changeover plan that will identify a timetable for public and private-sector preparations to enable Britain to join the euro, including necessary legislative changes. The plan has been scheduled for months, but it comes at a time of growing pressure from industry.

Last month, 114 senior British executives urged the government to harden its commitment and push to join the euro "as soon as the conditions for successful entry are in place." Mr. Blair welcomed the message but pointedly declined to commit himself.

"When he comes out for EMU," Mr. Holtham said, "he will give the Tories an issue that will galvanize them. He's going to have a knockout, drag out fight with the Daily Mail and The Sun," the two mass market tabloids most opposed to Britain joining the euro.

# Restructuring Financial Markets

## EMU Could Trigger Massive Inflow of Investments

By Conrad de Aenlle

buy Coca-Cola Co. because he is shopping around for a good beverage company, but not because he is looking for a good company based in Georgia.

As one large investment universe develops in Europe, the participants are likely to be larger institutions whose reach extends across the region. The big American investment banks are expanding their presence, especially in London, which will remain the center of European finance, even though Britain will not take part initially in monetary union.

Smaller investors will have a wider choice of managers for their money as big banks and specialist asset managers expand into different markets within the euro zone.

"Large banks are buying subsidiaries or setting up their own operations in different countries, and large fund management companies, such as Fidelity and Flemings, are registering funds in numerous European locations," said Diana Mackay, who heads the European office of Lipper Analytical Services, a fund research firm.

For asset managers, who under European Union law already can sell their funds throughout the union once a single state approves them, the advent of the euro means that "a number of little barriers will come down," she said. "That's not to say suddenly people will be able to sell funds all around Europe. It's still tough; there's a lot of divergence from country to country on how regulators interpret European directives, and there are still language barriers. Above all, they're still having to compete with very strong local players, but it will make life a little easier."

Anticipating the focus on regional investing, the two largest European stock exchanges, in London and Frankfurt, have agreed to join forces, with each allowing trading by the other's members. The alliance could swell to nine exchanges under a plan put forward by the Paris Bourse, resulting in the creation of a pan-European stock market.

**A**LL this is the big picture. The small picture will be sketched over "conversion weekend," the four days beginning Dec. 31. Trading in European markets will cease, switches will be flipped and prices of most stocks and bonds denominated in the 11 EMU currencies will be refuged in euros, down to five decimal places, based on exchange rates set on Dec. 31.

Each country will decide how to handle the fractions left over after conversion. Say bonds with a face value of 1,000 Deutsche marks will each be worth 528.83756 euros; depending on the practice chosen in Germany, the bonds could carry that value or they could be rounded down to 528 euros, with the 83-plus cents per bond returned to investors.

But there are skeptics and cautious optimists who warn against getting swept up in the belief that the cusp of a new era of unabated growth in European investment is at hand.

Francesco Giordano, chief economist for the euro zone countries at Credit Suisse First Boston, suggested that too much emphasis was being placed on the benefits of monetary union, while lingering impediments to doing business in Europe, such as high taxes, bureaucracy and inflexible labor markets, seen as the main source of the region's lingering unemployment, were being ignored.

In any case, he said, many of the advantages of monetary union have already occurred or have been anticipated for so long that they will have much less impact on financial markets after Jan. 1 than predicted. "The euro in itself doesn't have a great bearing" on the level of investment, he said. "Economic union by and large has already happened. The euro itself doesn't do all that much. We've had a common market since 1992."

CONRAD DE AENLLE is a writer in London specializing in economics and investment.

The most ambitious business plan in history will soon be set in motion. On January 1,

eleven EMU nations will begin valuing everything from stocks to their national debts

in euros. As a group, they will form one of the world's strongest monetary blocs.

A single unified front with sufficient clout to withstand the random turbulence of today's international markets. The question is - how prepared are you for what lies ahead?

# Euready

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The fact that ING is one of Europe's largest financial institutions does not fully express our readiness for the euro. The real explanation lies in our ability to think and anticipate change as a group. Recently, this led to our acquisition of Belgium's BBL and our strategic investment in Germany's BHF Bank. It has also resulted in the creation of "euronavigation" - a new means of electronic banking that allows companies to steer all their international cash management activities from a single account. By now, ING is one of a select group of companies to provide banking, insurance and asset management services on a truly Pan-European basis. This, we think, explains how ready we truly are for the big event on January 1. Prepared to find out what the euro and ING can do for you? Visit [www.inggroup.com](http://www.inggroup.com) or send an e-mail to [inggroup@inggroup.com](mailto:inggroup@inggroup.com)

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## SPORTS

# Senators Ground Lightning

*The Associated Press*

Shawn McEachem had two goals and an assist to lead the Ottawa Senators to a 4-2 victory over the Lightning in Tampa Bay.

Alexei Yashin added a goal and two assists in the game.

**NHL ROUNDUP**

Tuesday night. The center has eight goals and 17 points in his past 14 games.

The Senators (13-8-3) outlasted Tampa Bay, 4-2, in going five games over .500 for just the fourth time in team history. Benoit Hogue and Vincent Lecavalier scored the Tampa Bay goals.

**Red Wings** 2, Blackhawks 2. Two assists by Steve Yzerman led host Detroit over Chicago. The loss snapped the Blackhawks' three-game winning streak.

**Avangard** 2, Islanders 1. Peter Forsberg scored the winning goal while falling on his back, and Patrick Roy stopped 31 shots in Color-



The Devils' Lyle Odelein giving the Flyers' Eric Lindros a shove in front of the New Jersey goal.

ado's victory over the Islanders in New York.

Flyers' 5, Devils' 5. Rod Brind'Amour scored the tying goal with 3:45 remaining in the third period as visiting Philadelphia beat New Jersey.

**Oilers** 3, Predators 2. Cliff Ronning and Sergei Krivokrasov scored 20

seconds apart in the closing minutes as host Nashville won a three-game losing streak by skating to a win with Edmonton.

**Bruins** 2, Sabres 2. Curtis Brown scored both goals to beat Dominik Hasek's strong goaltending as Buffalo skated to a tie against host St. Louis.

**SCOREBOARD****ASIA GAMES****INDONESIA THAILAND****CAMBODIA****MEN'S KAYAK SPRINTS**

1. **Septet** Serbia-Kosovo, 4 minutes, 1.76

2. **Septet** Hong Kong, 4:02.77

3. **Septet** South Korea, 4:03.15

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ART BUCHWALD

**Pickpocket's Paradise**

**N**EW YORK — The city is bustling this Christmas. The warm weather and money in people's pockets bring out shoppers all over the country.

Not only are the stores doing fabulously but also the pickpockets.

I got into a conversation with one at the skating rink a Rockefeller Center. He was counting money in a wallet he had just snatched. "Business good?" I asked.

"It's never been better," he said. "People are spending, and they are carrying around cash. With the warm weather no one is wearing a coat so the snatch is twice as easy and we've been able to double our picks. We're up 15 percent from last Christmas."



"Is Rockefeller Center a good location for pickpockets?"

"The best. People are jammed together and everyone is looking at the tree and

**Maughan's Day**

New York Times Service

**B**OSTON — W. Somerset Maugham (1874-1965) will be the focus Thursday at Boston University, when its department of special collections opens an exhibition of rare manuscripts, papers and memorabilia of Maugham, the author of "Of Human Bondage" and "The Razor's Edge." The Maugham papers include more than 500 letters from such notables as Raymond Chandler, Winston Churchill, T.S. Eliot and E.M. Forster.

no one is paying any attention to what strangers are doing to them. I tried Broadway, but except for New Year's Eve, I'll take this place any time."

"Do the purse-snatchers also work here?"

"It's a little more dangerous. You take a lady's purse and she starts screaming bloody murder. Pickpocketing is a quiet crime, and people don't know they've been fleeced until they get home."

□

The pickpocket counted the money from the wallet. It came to \$110. "It's not a fortune," he said, "but it gets me to Florida."

"I imagine Christmas is the best time for pickpockets."

"We do 50 percent of our business during the holidays. This year has been exceptionally good because of the economy. We're even getting calls with Microsoft stock certificates in them."

"Would I be correct in saying that with things so good pickpockets don't want to impeach President Clinton?"

"They don't as long as the country is booming. The only thing pickpockets think about are their pockets, and not who the president wishes to daily with in Washington."

"Well," he said, "I guess I have to go back to work. I may not see crowds like this again."

"One more question. Have you ever thought of going into an honest profession?"

"I was thinking of becoming a lawyer, but I was afraid everyone would call me a crook."

I saw him fade into the crowd, his deft fingers brushing against the breast pocket of a man's blazer. Only in America could one person get that close to another without getting caught.

By Warren Hoge

New York Times Service

**T**ARVES, Scotland — It's the time of year in northern Scotland when gusts of wind send gold and russet leaves climbing the air, and bales of straw gone gray in the early falling dark stand sentinel over fields of barley stubble.

One morning, Alexander George Gordon, the Earl of Haddo and laird of the Haddo Estate, and his manager, Mark Andrew, were in the staff quarters on the 9,000-acre family property, pulling on their distinctive navy and white estate tweeds. "Someone once said we ended up looking like a herd of zebras," Andrew said.

First came dark blue stockings with a bright yellow tail at the top called the garter, then the plus fours called breeks, finally a matching waistcoat, jacket and flat cap. Lachy, Lord Haddo's yellow Labrador, sashayed through the door while other Labs and springer spaniels yelped and swarmed outside. At a gruff order, they quieted down.

"This is what we wait all year for," Andrew said, stepping outside and splashing merrily through a puddle.

Late autumn is the time when the brooding pace of country living picks up in Aberdeenshire. The start of the November-to-February pheasant-shooting season is cause for real excitement. The workers on the estate have spent months getting ready for the moment, and scores of well-dressed shooters have pursued their sport here from Austria, Belgium, France, Germany, Italy and the United States.

Far away from here, there is a sense of anticipation, too. "I look forward to the fall and get really excited with the start of the season in Scotland," Terrence Brennan, the chef of Picholine in New York, said over the telephone. For him and an increasing number of cooks and chefs in the United States, pheasant from Scotland is the best way to meet a game lover's fancy. Scottish pheasant spend more than half their lives completely wild, and that gives them flavor that flightless domestic birds confined in pens never acquire. The only domestic game allowed to be sold in the United States is furred raised.

To real pheasant connoisseurs, the gamier the better. "Even if you taste the best that the U.S. has to offer, once you try the Scottish pheasant, there is no turning back," Brennan said. "For me, flavor is the most important thing, and there is no comparison between



Jonathan Player/The New York Times

Alexander George Gordon, Earl of Haddo, and his Labrador, Lachy.

the gamy taste of Scottish pheasant and the kind that has been pen raised."

This marriage of pheasants flying in Scotland and chefs working in America was brokered here by a serendipitous coming together of separate interests — sportsman, estate owner, processor and importer.

Like a lot of things in Scotland, it began with tradition. The custom has always been that a sportsman is entitled to keep a brace — two birds — that he has killed, and the rest belong to the estate. A normal day's outing can produce up to 250 birds. The estate's birds used to be hung for a week to age and then passed out to workers on the grounds or sold to merchants. With the disappearance of the corner butchers and the coming of supermarkets, the call for pheasant fell away. "They weren't too keen on laying our birds with lead shot in them for supermarket customers," said Andrew, Lord Haddo's manager.

Spotted an opportunity, John Bain, the managing partner of Bain of Tarves Game and Venison Suppliers, created a fleet of

refrigerated trucks and compiled a schedule of times and places of shoots, so that he could pick up freshly killed game and rush it the same day to his processing plants. Plucked, cleaned and vacuum packed, the pheasants are on their way to British supermarkets and American importers in two days, with a shelf life of up to 10 days.

He is handling 10,000 pheasant a week for the 12 weeks of the season ending in February. Twelve thousand of them end up in the United States through the importer D'Artagnan in Newark, New Jersey, which sells them to restaurants and home cooks.

The birds' rearing process begins when the season ends in February and the females are lured into cages by food and then put into fields with cocks. Once in place, pheasants stay put. "Pheasants would walk everywhere instead of flying if they could," Andrew said.

Eggs are laid in late March or April and, aided by incubation, hatch in May. In the early weeks, the chicks are fed pelleted

food, but within six to eight weeks, their diet includes barley, wheat and maize from the estate. They are then transferred to big release pens in the woods with room to roam. By 12 weeks they are trying out their newly sprouted flight feathers.

By October, some 9,000 grown pheasants are on the estate. There seem to be as many skittering across roads and darting around stone walls as hunkering down in wooded areas, copes or overgrown cottage ruins. "Like any of us, they like warm places," Lord Haddo said. They take to the air only when roused, springing from the ground in bursts of energy that last only eight seconds before they have to glide to a landing.

"We'll have eight guns and four wives for lunch," Lord Haddo cheerfully told the women in the kitchen, who were cutting up chicken parts and smoked bacon for the noon-time huntman's pie. The "guns," the invited shooters, were arriving in the driveway, every one in olive tweeds, a tall-sail shirt, gamebird necktie and insulated wellies, the all-purpose Wellington boots, which have sheltered the feet of farmers and outdoors people in the British Isles for generations.

A typical "driven" shooting goes to six sites during the day, with retreats from the chill wind to break into flasks of mulled wine. At each drive, or spot where birds are driven out, there are numbered stakes known as pegs, corresponding to the number the individual shooter has for that drive.

Once they are in place, 20 "beaters" come up gingerly behind the birds, waving flags and shaking rough-hewn wooden rattles. It is part of the beaters' skill not to scare all the birds up at once, and they scatter from cover and soar over the shooters in waves. Most make it to the other side of the clearing. Dogs tear through the brush after fallen birds.

The cry "Don't shoot" goes up if the bird is an owl, a songbird, a hawk or some other protected species. "Continental Europeans will shoot anything that moves," Lord Haddo said, taking his own shot at Britons' favorite targets. Andrew summoned a look of disgust. "The French shoot larks," he said.

A quizzical question about killing birds came up, and Lord Haddo turned mildly scornful. "I would say the expression 'bird-brain' applies perfectly to pheasants," he said. "I'm often amused when people talk about giving birds their rights. Well, if you gave pheasants rights, they'd all be in jail for murder and gang rape. They are ferocious to each other."

**PEOPLE**

**W**ORKS of contemporary art went under the hammer at Christie's in London, raising £1.63 million (\$2.7 million) for young artists. The 130 works, including pieces by the British artists Damien Hirst and Rachel Whiteread, were part of the collection of the British advertising guru and contemporary art patron Charles Saatchi. Hirst's "The Lovers" — four cabinets containing assorted glass jars of internal organs from two cows — fetched £139,000, and Whiteread's plaster sculpture of the underside of a domestic sink, one of her best-known works, went for £133,500. Saatchi plans to use the proceeds for scholarships at four London art colleges.

James Hewitt, the onetime lover of Diana, Princess of Wales, has sued the law firm handling her estate to try to recover love letters she wrote to him. Hewitt says the 54 letters, written to him by the princess from 1989 to 1991, were removed from a safe in his home by a former girlfriend and have ended up in

the possession of the law firm of Lawrence Graham. Hewitt's former fiancée, the model Anna Feretti, was arrested in April amid allegations that she had tried to sell the letters to The Mirror tabloid newspaper. The Mirror handed the letters over to the late princess's private office without publishing them, and police later announced that Feretti would not be prosecuted. Diana's moth-

er, Frances Shand Kydd, said the executors of her daughter's will would be happy to return the letters, provided Hewitt guaranteed their "safekeeping."

For the first time in a decade, Bruce Springsteen is reuniting with the E Street Band for a worldwide concert tour that begins next summer. Spring-

steen and the band haven't hit the road together since the 1988-89 Amnesty International tour. Details of the coming tour will be released next year.

Britain's national film theater paid an affectionate 40th-anniversary tribute to the "Carry On" comedy films for turning innuendo into an art form. The series was launched in 1958 with "Carry On Sergeant." The Museum of the Moving Image in London paid the 31 films the ultimate cinematic compliment with an exhibition hailing what one of its stars, the late camp comedian Kenneth Williams, called "good old honest smut."

Naomi and Wynonna Judd say their reunion concert next year may be the first of many, if there is enough fan interest. Naomi quit music in 1991 to fight hepatitis C. Now she says she's healthy, and the pair have announced a reunion concert for New Year's Eve 1999 in Phoenix, Arizona.

**Japan's Crown Princess Celebrates Her 35th**

The Associated Press

**T**OKYO — Crown Princess Masako of Japan celebrated her 35th birthday Wednesday with hopes to secure new roles for herself and her husband within Japan's imperial household, while preserving its traditions.

"I believe it is important to respect the traditions long cultivated in the Imperial Family, as well as to introduce new things," Masako said in a pre-birthday news conference that was released Wednesday.

Masako also said that she and her husband never had serious quarrels in their five years of marriage, and gave credit to their dogs Pippi and Mari for contributing to the harmony of their life.

"There is a Japanese saying that even a dog will not eat a quarrel between man and wife," Masako said. "But our dogs seem to be rather good at picking up and swallowing all the seeds of our quarrels."

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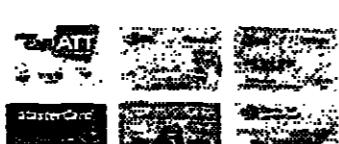
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